

**CITY OF NORFOLK, VIRGINIA**  
**\$176,925,000**  
**Water Revenue Refunding Bonds,**  
**Series 2012**

**Dated: Date of Delivery**

**Due: November 1, as shown on the inside cover**

The City of Norfolk, Virginia (the "City"), prepared this Official Statement to provide information pertaining to the above-referenced bonds (the "2012 Bonds"). This cover page presents a summary of selected information for your convenience and does not provide a complete description of the 2012 Bonds. To make an informed decision regarding the 2012 Bonds, you should read this Official Statement in its entirety. Unless otherwise defined, all capitalized terms used on this cover page are defined herein.

**Tax Matters**

In the opinion of Bond Counsel, under current law and assuming the compliance with certain covenants by the City and the accuracy of certain representations and certifications made by certain City officials and other persons and entities described in "TAX MATTERS" herein, interest on the 2012 Bonds is (i) excludable from the gross income of the owners of the 2012 Bonds for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), (ii) not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the 2012 Bonds must be included in the adjusted current earnings of certain corporations for purposes of computing the federal alternative minimum tax imposed on such corporations.

Bond Counsel is of the further opinion that interest on the 2012 Bonds is excludable from gross income for purposes of income taxation by the Commonwealth of Virginia (the "Commonwealth").

Bond Counsel expresses no opinion regarding any other tax consequence related to the ownership or disposition of, or the accrual or receipt of interest on, the 2012 Bonds.

See "TAX MATTERS" herein regarding other tax considerations.

**Security**

The 2012 Bonds are limited obligations of the City payable solely from Net Revenues derived from the City's water system and other funds pledged for their payment under the terms of the Indenture. Neither the faith and credit of the Commonwealth nor the faith and credit of any county, city, town or other political subdivision of the Commonwealth, including the City, is pledged to the payment of principal of, premium, if any, or interest on the 2012 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

**Redemption**

See inside cover of this Official Statement.

**Authority for Issuance**

Ordinance No. 44,570 adopted by the City Council on February 28, 2012.

**Purpose**

The proceeds of the 2012 Bonds will be used, together with other available funds, to (i) refund certain outstanding water revenue bonds of the City, and (ii) pay the costs related to the issuance and sale of the 2012 Bonds. See "PLAN OF REFUNDING" herein and "SOURCES AND USES OF FUNDS" herein.

**Interest Payment Dates**

Semi-annually on May 1 and November 1, beginning November 1, 2012.

**Registration**

Book-Entry Only; The Depository Trust Company. See "DESCRIPTION OF THE 2012 BONDS-Book-Entry Only System" herein.

**Closing/Delivery Date**

On or about April 4, 2012.

**Bond Counsel**

McGuireWoods LLP, Richmond, Virginia.

**Financial Advisor**

Public Financial Management, Inc., Arlington, Virginia.

**Underwriters' Counsel**

Christian & Barton, L.L.P., Richmond, Virginia.

**Registrar/Paying Agent**

U.S. Bank National Association.

**Issuer Contact**

Acting Director of Finance of the City. (757) 664-4346.

**Morgan Stanley**

**Siebert Brandford Shank & Co., L.L.C.**

**BofA Merrill Lynch**

**BB&T Capital Markets**  
a division of Scott & Stringfellow, LLC

**M&T Securities, Inc.**

**Dated March 22, 2012**

**\$176,925,000**  
**Water Revenue Refunding Bonds, Series 2012**  
**(Base CUSIP Number 656009)\*\***

**MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS**

<b>Year Of Maturity</b> <b>(November 1)</b>	<b>Principal</b> <b><u>Amount</u></b>	<b>Interest</b> <b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>Price</u></b>	<b>CUSIP**</b> <b><u>Suffix</u></b>
2012	\$4,535,000	2.000%	0.150%	101.062%	HZ3
2013	4,720,000	2.000	0.370	102.557	JA6
2014	5,190,000	4.000	0.570	108.755	JB4
2015	6,040,000	5.000	0.750	114.963	JC2
2016	7,835,000	5.000	1.040	117.647	JD0
2017	11,510,000	5.000	1.310	119.775	JE8
2018	11,735,000	5.000	1.720	120.307	JF5
2019	12,440,000	5.000	2.010	120.910	JG3
2020	14,065,000	5.000	2.290	120.988	JH1
2021	14,930,000	5.000	2.460	121.549	JJ7
2022*	16,065,000	5.000	2.630	120.854	JK4
2023*	16,290,000	5.000	2.760	119.582	JL2
2024*	12,745,000	5.000	2.870	118.519	JM0
2025*	13,580,000	5.000	2.950	117.752	JN8
2026*	6,105,000	5.000	3.030	116.992	JP3
2027*	6,485,000	5.000	3.140	115.955	JQ1
2028*	6,930,000	5.000	3.230	115.116	JR9
2029*	1,785,000	5.000	3.280	114.652	JS7
2030*	1,905,000	5.000	3.330	114.191	JT5
2031*	2,035,000	5.000	3.380	113.732	JU2

**OPTIONAL REDEMPTION**

The 2012 Bonds maturing prior to November 1, 2021, are not subject to optional redemption prior to maturity. The 2012 Bonds maturing on or after November 1, 2022, are subject to optional redemption prior to their respective maturities on or after May 1, 2022, at the option of the City, in whole or in part (in increments of \$5,000) at any time, at par plus unpaid interest accrued on the principal amount to be redeemed to the date fixed for redemption.

\* Priced to first optional redemption date of May 1, 2022.

\*\* A registered trademark of the American Bankers Association ("ABA"), used by Standard & Poor's in its operation of the CUSIP Service Bureau for the ABA. The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the City, and the City is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The City has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

## **CITY OF NORFOLK, VIRGINIA**

### **CITY COUNCIL**

Paul D. Fraim, Mayor  
Anthony Burfoot, Vice Mayor

Andrew A. Protopgyrou  
Paul R. Riddick  
Thomas R. Smigiel

Dr. Theresa W. Whibley  
Angelia M. Williams  
Barclay C. Winn

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### **MUNICIPAL OFFICIALS**

Marcus D. Jones, City Manager  
Shenette C. Felton, Acting Director of Finance  
Kristen M. Lentz, Director of Utilities  
Bernard A. Pishko, City Attorney

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### **BOND COUNSEL**

McGuireWoods LLP  
Richmond, Virginia

### **FINANCIAL ADVISOR**

Public Financial Management, Inc.  
Arlington, Virginia

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THE 2012 BONDS ARE EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THE 2012 BONDS ARE ALSO EXEMPT FROM REGISTRATION UNDER THE SECURITIES LAWS OF THE COMMONWEALTH OF VIRGINIA.

NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE CITY TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE CITY. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, NOR SHALL THERE BE ANY SALE OF THE 2012 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE AN OFFER, SOLICITATION OR SALE. THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT OR AGREEMENT BETWEEN THE CITY AND THE PURCHASERS OR OWNERS OF ANY OF THE 2012 BONDS. THE INFORMATION AND EXPRESSIONS OF OPINION IN THIS OFFICIAL STATEMENT ARE SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE UNDER IT WILL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY SINCE THE DATE OF THIS OFFICIAL STATEMENT.

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The underwriters listed on the front cover of this Official Statement (collectively, the "Underwriters") may engage in transactions that stabilize, maintain or otherwise affect the price of the 2012 Bonds, including transactions to (a) over allot in arranging the sales of the 2012 Bonds and (b) make purchases in sales of the 2012 Bonds, for long or short accounts, on a when-issued basis or otherwise, at such prices, in such amounts and in such manner as the Underwriters may determine. Such stabilization, if commenced, may be discontinued at any time.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement contains certain projections or estimates, as well as assumptions made by and information currently available to the City. When information presented herein is not a recitation of historical fact, it constitutes "forward looking statements." When used in this Official Statement, the words, "anticipate," "estimate," "expect" and similar expressions are intended to identify projections and estimates. Such statements are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or expected. The assumptions and expectations concerning the receipt in future years of Net Revenues that secure the 2012 Bonds are subject to various uncertainties that may adversely affect the amount of such Net Revenues. Hence, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

All quotations from, and summaries and explanations of, provisions of law and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact.



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**OFFICIAL STATEMENT**  
**Relating to the Issuance of**  
**\$176,925,000**  
**City of Norfolk, Virginia**  
**Water Revenue Refunding Bonds,**  
**Series 2012**

**INTRODUCTORY STATEMENT**

The purpose of this Official Statement, including the information contained in the Appendices, is to furnish information relating to the City of Norfolk, Virginia (the "City"), its water supply, treatment, storage and distribution system (the "System" or the "Water System") and its Water Revenue Refunding Bonds, Series 2012 (the "2012 Bonds"), to be issued in the aggregate principal amount of \$176,925,000. This Official Statement has been authorized by the City for use in connection with the sale of the 2012 Bonds.

The 2012 Bonds will be issued pursuant to the Public Finance Act of 1991, Chapter 26 of Title 15.2 of the Code of Virginia of 1950, as amended (the "Act"). The 2012 Bonds are being issued under the provisions of a Master Indenture of Trust dated as of November 1, 1993, as previously supplemented and amended (the "Master Indenture"), between the City and U.S. Bank National Association, Richmond, Virginia, as successor Trustee (together with any successor, the "Trustee"), as additionally supplemented and amended by a Ninth Supplemental Indenture of Trust dated as of April 1, 2012 (the "Ninth Supplemental Indenture"), between the City and the Trustee. The Master Indenture and the Ninth Supplemental Indenture are referred to collectively herein as the "Indenture." For information concerning certain amendments to the Master Indenture to be made by the Ninth Supplemental Indenture, see "AMENDMENTS TO THE MASTER INDENTURE" below.

Certain capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture. See "Appendix A-DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" hereto.

The 2012 Bonds are the eighth Series of Bonds issued under the Master Indenture. Set forth in the following chart are the issue dates, original principal amounts and Outstanding principal amounts of the seven prior Series of Bonds (collectively, the "Prior Series"):

**Prior Series of Bonds**

<u>Series of Bonds</u>	<u>Issue Date</u>	<u>Original Principal Amount</u>	<u>Outstanding Principal Amount as of March 1, 2012</u>
Water Revenue Bonds, Series 1993 ("1993 Bonds") <sup>1</sup>	December 14, 1993	\$ 68,430,000	\$40,055,000
Water Revenue Bonds, Series 1995 ("1995 Bonds") <sup>1</sup>	August 17, 1995	115,680,000	77,650,000
Water Revenue and Refunding Bonds, Series 1998 ("1998 Bonds") <sup>1</sup>	November 24, 1998	84,605,000	61,700,000
Water Revenue and Refunding Bonds, Series 2001 ("2001 Bonds") <sup>1</sup>	October 21, 2001	35,000,000	28,035,000
Water Revenue and Refunding Bonds, Series 2005 ("2005 Bonds") <sup>1</sup>	March 23, 2005	22,810,000	20,225,000
Water Revenue Bonds, Series 2008 ("2008 Bonds")	April 23, 2008	58,415,000	55,440,000
Water Revenue Bonds, Series 2010 ("2010 Bonds")	September 30, 2010	<u>47,415,000</u>	<u>46,505,000</u>
<b>Total</b>		<u><b>\$432,355,000</b></u>	<u><b>\$329,610,000</b></u>

<sup>(1)</sup> All or a portion to be refunded by the 2012 Bonds. See "PLAN OF REFUNDING" below.

The 2012 Bonds will be limited obligations of the City payable solely from Net Revenues derived from the System and other funds pledged for the payment under the terms of the Indenture. Neither the faith and credit of the Commonwealth of Virginia (the "Commonwealth") nor the faith and credit of any county, city, town or other subdivision of the Commonwealth, including the City, is pledged to the payment of the principal of, premium, if any, or interest on the 2012 Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" below.

The 2012 Bonds will be issued in authorized denominations of \$5,000, or whole multiples thereof, and held in book-entry only form by The Depository Trust Company ("DTC"), or its nominee, as securities depository with respect to the 2012 Bonds. See "DESCRIPTION OF THE 2012 BONDS - Book-Entry Only System" below. The 2012 Bonds are subject to optional and mandatory redemption prior to their stated maturities. See "DESCRIPTION OF THE 2012 BONDS - Redemption" below.

All financial and other information presented in this Official Statement has been provided by the City and other sources that are believed to be reliable. The presentation of information is intended to show recent historic information and is not intended, unless specifically stated, to indicate future continuing trends in the financial position or other affairs of the System. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement should be considered in its entirety, and no one subject discussed should be considered less important than any other by reason of its location in the text. Reference should be made to the laws, reports or other documents referred to in this Official Statement, including the Indenture for more complete information regarding their contents.

### AUTHORIZATION AND PURPOSE

The 2012 Bonds have been authorized by Ordinance No. 44,570 enacted by the City Council on February 28, 2012. The City is issuing the 2012 Bonds and using the proceeds thereof, together with other available funds, to (i) refund certain outstanding water revenue bonds of the City and (ii) pay the costs related to the issuance and sale of the 2012 Bonds.

### PLAN OF REFUNDING

The Bonds to be refunded by the 2012 Bonds include all or portions of the City's Outstanding 1993 Bonds, 1995 Bonds, 1998 Bonds, 2001 Bonds and 2005 Bonds (collectively, the "Refunded Bonds") as more particularly described in the table below. The City is refunding the Refunded Bonds to obtain present value debt service savings, and the amounts, maturity dates and redemption dates of the Refunded Bonds are subject to change based on market conditions and other factors in effect on the sale date.

#### Refunded 1993 Bonds (Base CUSIP Number 656009)<sup>1</sup>

<u>Year of Maturity (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP<sup>1</sup> Suffix</u>
2013	\$5,020,000	5.250%	5/4/2012	100%	AR8
2023	<u>35,035,000</u>	5.375	5/4/2012	100	AS6
	\$40,055,000				

#### Refunded 1995 Bonds (Base CUSIP Number 656009)<sup>1</sup>

<u>Year of Maturity (November 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Redemption Date</u>	<u>Redemption Price</u>	<u>CUSIP<sup>1</sup> Suffix</u>
2012	\$3,685,000	5.750%	5/4/2012	100%	BW6
2013	3,905,000	5.750	5/4/2012	100	BX4
2014	4,140,000	5.875	5/4/2012	100	BY2
2015	4,390,000	5.875	5/4/2012	100	BS5
2020	26,265,000	5.875	5/4/2012	100	BT3
2025	<u>35,265,000</u>	5.900	5/4/2012	100	BU0
	\$77,650,000				

**Refunded 1998 Bonds (Base CUSIP Number 656009)<sup>1</sup>**

<b>Year of Maturity (November 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP<sup>1</sup> Suffix</b>
2012	\$2,370,000	5.000%	4/16/2012	100%	CP0
2013	2,490,000	5.000	4/16/2012	100	CQ8
2014	2,615,000	4.750	4/16/2012	100	CR6
2015	2,745,000	5.000	4/16/2012	100	CS4
2016	2,880,000	4.750	4/16/2012	100	CT2
2017	3,020,000	4.750	4/16/2012	100	CU9
2018	3,170,000	4.750	4/16/2012	100	CV7
2023	18,500,000	5.125	4/16/2012	100	CW5
2028	<u>23,910,000</u>	5.125	4/16/2012	100	CX3
	\$61,700,000				

**Refunded 2001 Bonds (Base CUSIP Number 656009)<sup>1</sup>**

<b>Year of Maturity (November 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP<sup>1</sup> Suffix</b>
2012	\$860,000	4.000%	4/16/2012	100%	DK0
2013	900,000	4.125	4/16/2012	100	DL8
2014	935,000	4.250	4/16/2012	100	DM6
2015	975,000	4.375	4/16/2012	100	DN4
2016	1,025,000	5.000	4/16/2012	100	DP9
2017	1,075,000	5.000	4/16/2012	100	DQ7
2018	1,130,000	5.000	4/16/2012	100	DR5
2019	1,190,000	5.000	4/16/2012	100	DS3
2020	1,250,000	4.750	4/16/2012	100	DT1
2021	1,310,000	5.000	4/16/2012	100	DU8
2022	1,380,000	5.000	4/16/2012	100	DV6
2023	1,450,000	5.000	4/16/2012	100	DW4
2024	1,525,000	5.000	4/16/2012	100	DX2
2025	1,600,000	4.750	4/16/2012	100	DY0
2026	1,680,000	4.750	4/16/2012	100	DZ7
2031	<u>9,750,000</u>	5.000	4/16/2012	100	EE3
	\$28,035,000				

**Refunded 2005 Bonds (Base CUSIP Number 656009)<sup>1</sup>**

<b>Year of Maturity (November 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Redemption Price</b>	<b>CUSIP<sup>1</sup> Suffix</b>
2017	\$595,000	5.000%	11/1/2015	100%	ES2
2020	675,000	4.750	11/1/2015	100	EV5
2021	705,000	4.750	11/1/2015	100	EW3
2022	<u>745,000</u>	4.750	11/1/2015	100	EX1
	\$2,720,000				

<sup>(1)</sup> A registered trademark of the ABA, used by Standard & Poor's in its operation of the CUSIP Service Bureau for the ABA. The above CUSIP (Committee on Uniform Securities Identification Procedures) numbers have been assigned by an organization not affiliated with the City, and the City is not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of bondholders and no representation is made as to the correctness of such CUSIP numbers. CUSIP numbers assigned to securities may be changed during the term of such securities based on a number of factors including, but not limited to, the refunding or defeasance of such securities or the use of secondary market financial products. The City has not agreed to, and there is no duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers set forth above.

A portion of the proceeds of the 2012 Bonds and other available funds in the aggregate amount of \$216,058,574.79 will be deposited, together with other available funds, with U.S. Bank National Association (the "Escrow Agent"), pursuant to an Escrow Agreement, to be dated the delivery date of the 2012 Bonds, between the City and the Escrow Agent (the "Escrow Agreement"). The Escrow Agreement will provide for the purchase of direct, non-callable obligation of the United States Treasury (the "Escrow Securities") that will mature and bear

interest at times and in amounts sufficient to pay the principal of and the premium, if any, and interest on the Refunded Bonds through their respective redemption dates. The sufficiency of the Escrow Securities deposited with the Escrow Agent was verified by Grant Thornton LLP, Minneapolis, Minnesota. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS."

#### AMENDMENTS TO THE MASTER INDENTURE

**The City has requested the Trustee to enter into the Ninth Supplemental Indenture, which among other things provides for certain amendments to the Master Indenture. Such amendments will be in effect upon the issuance of the 2012 Bonds. By purchasing the 2012 Bonds, the original purchasers of the 2012 Bonds will (i) waive any notice of such amendments as required by the Master Indenture and (ii) consent to the amendments to the Master Indenture set forth in the Ninth Supplemental Indenture. The 2012 Bonds will constitute a majority in aggregate principal amount of the Bonds and Parity Indebtedness Outstanding on the date of the delivery of the 2012 Bonds. There is no Parity Indebtedness Outstanding under the Indenture.**

The first amendment to be made by the Ninth Supplemental Indenture is to the provisions regarding the amount to be deposited and maintained in the Debt Service Reserve Fund established to provide additional security for the Bonds. The City is required to deposit and maintain in the Debt Service Reserve Fund an amount equal to the Debt Service Reserve Requirement, which, as currently provided in the Master Indenture and with certain minor exceptions not relevant for either the Prior Series or the 2012 Series, is equal at least to the lesser of (i) the maximum principal and interest due on the Bonds then Outstanding and additionally secured by such Fund in the then current or any future Fiscal Year and (ii) 125% of the average annual principal and interest due on the Bonds then Outstanding and additionally secured by such Fund in the then current and each future Fiscal Year (the "Prior DSR Requirement").

After the date of the delivery of the 2012 Bonds (the "Delivery Date"), the term "Debt Service Reserve Requirement" will mean, as of any particular date of calculation, the sum of (i) the Prior DSR Requirement computed with respect to the then-Outstanding Bonds of the Prior Series only and (ii) with respect to any other Series of Bonds, an amount at least equal to the least of (x) the maximum principal and interest due on the then-Outstanding Bonds of such Series in the then current or any future Fiscal Year, (y) 125% of the average annual principal and interest due on the then-Outstanding Bonds of such Series in the then current and each future Fiscal Year and (z) 10% of the proceeds of such Series of Bonds (within the meaning of Section 148(d) of the Code); provided that the Supplemental Indenture corresponding to any Series of Bonds (other than the Prior Series) may provide for the establishment of a separate account in the Debt Service Reserve Fund to secure only such Series of Bonds (and any Bonds issued to refund such Series in part), with such Series of Bonds having no claim on the other moneys deposited to the credit of the Debt Service Reserve Fund or any other account therein, and may provide for a separate Debt Service Reserve Requirement for such Series of Bonds to be calculated as set forth in the corresponding Supplemental Indenture.

The Ninth Supplemental Indenture provides that the 2012 Bonds will be secured by a separate account in the Debt Service Reserve Fund, will have no claim on the other moneys deposited to the credit of the Debt Service Reserve Fund or any other account therein, and the Debt Service Reserve Requirement for the 2012 Bonds is zero. Although the City may at its option establish a positive Debt Service Reserve Requirement for the 2012 Bonds, it does not expect to do so.

The Master Indenture currently permits the issuance of Additional Bonds to refund Outstanding Bonds or Parity Indebtedness only if the refunding will result in debt service savings in each Fiscal Year. The second amendment made by the Ninth Supplemental Indenture will permit the City to issue Additional Bonds to refund Outstanding Bonds or Parity Indebtedness to restructure debt service or otherwise in situations in which the City will not realize debt service savings in each Fiscal Year from the refunding. In any such case the City will need to demonstrate that it will satisfy the revenue covenant established by the Master Indenture in each of the two full Fiscal Years following the date of the delivery of the refunding Additional Bonds. The test authorized by the second amendment is identical to the requirement for the issuance of Additional Bonds to refund obligations other than Bonds or Parity Indebtedness issued with respect to the Water System (for example, Subordinate Debt).

If there is a deficiency in the Debt Service Reserve Fund under the current provisions of the Master Indenture, all Net Revenues remaining after provision for the payment of debt service on the Bonds and the Parity Indebtedness then Outstanding must first be applied to restore the required balance in the Debt Service Reserve

Fund. However, the Master Indenture does not require that there be any specific amount of such remaining Net Revenues, so the period over which such restoration may occur is indeterminate. The third amendment made by the Ninth Supplemental Indenture requires that any deficiency in the Debt Service Reserve Fund or any account therein be restored on a pro rata basis by not later than twelve months following the valuation date on which the deficiency was determined.

The fourth and final amendment made by the Ninth Supplemental Indenture is to the current definition of Debt Service Requirement (and the associated definitions) to reflect certain types of obligations that either did not exist when the City and the Trustee entered into the Master Indenture in 1993 or were not commonly issued to fund water system improvements at that time.

For additional information regarding the provisions of the Indenture, including the provisions amended pursuant to the Ninth Supplemental Indenture, see "Appendix A-DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" hereto.

## **DESCRIPTION OF THE 2012 BONDS**

### **General**

The 2012 Bonds will be dated the date of delivery, and will mature on November 1 in the years and amounts and bear interest at the rates set forth on the inside cover page of this Official Statement. Interest on the 2012 Bonds will be payable semi-annually on May 1 and November 1, commencing November 1, 2012. The Trustee will act as paying agent for the 2012 Bonds under the Indenture. The 2012 Bonds will be subject to optional and mandatory redemption prior to their stated maturities as described herein.

### **Book-Entry Only System**

*The description which follows of the procedures and recordkeeping with respect to beneficial ownership interests in the 2012 Bonds, payments of principal of and interest on the bonds to The Depository Trust Company, New York, New York ("DTC"), its nominee, Direct Participants (as defined below) or Beneficial Owners (as defined below), confirmation and transfer of beneficial ownership interests in the bonds and other bond-related transactions by and between DTC, the Direct Participants and Beneficial Owners is based solely on information furnished by DTC.*

DTC will act as securities depository for the 2012 Bonds. The 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee), or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the 2012 Bonds in the aggregate principal amount of such issue and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of the 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of the 2012 Bonds (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2012 Bonds, except in the event that use of the book-entry system for the 2012 Bonds is discontinued.

To facilitate subsequent transfers, the 2012 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the 2012 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2012 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2012 Bonds, such as redemptions, tenders, defaults and proposed amendments to the security documents. For example, Beneficial Owners of the 2012 Bonds may wish to ascertain that the nominee holding the 2012 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2012 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2012 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the bond registrar or paying agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (or its nominee), the City or the bond registrar and paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the bond registrar and paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2012 Bonds at any time by giving reasonable notice to the City and the bond registrar and paying agent. Under such circumstances, in the event that a successor depository is not obtained, the 2012 Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the 2012 Bonds will be printed and delivered to DTC.



Neither the City nor the bond registrar and paying agent has any responsibility or obligation to the Direct or Indirect Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Direct or Indirect Participant; (b) the payment by any Direct or Indirect Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the 2012 Bonds; (c) the delivery or timeliness of delivery by any Direct or Indirect Participant of any notice to any Beneficial Owner that is required or permitted to be given to Holders; or (d) any other action taken by DTC, or its nominee, Cede & Co., as Holder, including the effectiveness of any action taken pursuant to an Omnibus Proxy.

So long as Cede & Co. is the registered owner of the 2012 Bonds, as nominee of DTC, references in this Official Statement to the Holders of the 2012 Bonds mean Cede & Co. and not the Beneficial Owners, and Cede & Co. will be treated as the only holders of the 2012 Bonds.

The City may enter into amendments to the agreement with DTC or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the 2012 Bonds without the consent of Beneficial Owners or Holders.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

## **Redemption**

*Optional Redemption.* The 2012 Bonds maturing prior to November 1, 2021, are not subject to optional redemption prior to maturity. The 2012 Bonds maturing on or after November 1, 2022, are subject to optional redemption prior to their respective maturities on or after May 1, 2022, at the option of the City, in whole or in part (in increments of \$5,000) at any time, at par plus unpaid interest accrued on the principal amount to be redeemed to the date fixed for redemption.

*Notice of Redemption.* Any redemption of the 2012 Bonds is required by the Indenture to be made upon notice of redemption given by certified mail to DTC or, if the book-entry only system is discontinued as described above, by first class mail, postage prepaid, not less than 30 nor more than 60 days before the date fixed for redemption, to the registered owners of the 2012 Bonds to be redeemed and to the Municipal Securities Rulemaking Board (the "MSRB"), as set forth in the Indenture.

Each notice of redemption will contain, among other things, the CUSIP identification number and the number of the 2012 Bonds (or portions thereof) being called for redemption, the redemption date and price and the address at which the 2012 Bonds are to be surrendered for payment of the redemption price. Such notice may state that the redemption of the 2012 Bonds to be redeemed is conditioned upon the occurrence of certain future events, including, without limitation, the deposit with the Trustee of moneys sufficient to effect the redemption on or before the date fixed therefor.

Any defect in such notice or the failure to mail any such notice to the registered owner of any 2012 Bond called for redemption will not affect the validity of the proceedings for the redemption of any other 2012 Bond. Any defect in such notice or the failure to mail any such notice to the MSRB will not affect the validity of the proceedings for the redemption of the 2012 Bonds. As long as the book-entry only system is used for determining ownership of the 2012 Bonds, the City shall send notice to DTC or its nominee, or its successor. Any failure of DTC or its nominee or of a Direct Participant or Indirect Participant to notify a Direct Participant, Indirect Participant or Beneficial Owner of any 2012 Bond called for redemption will not affect the validity of the proceedings for the redemption of such 2012 Bond.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **Pledge Under the Indenture**

The 2012 Bonds, all Outstanding Series of Bonds and any Additional Bonds issued under the Indenture (collectively, the "Bonds") are limited obligations of the City payable from Net Revenues and reserves held for such purpose. The term "Net Revenues" is defined in the Indenture as Revenues less Operating Expenses. As defined in the Indenture, "Revenues" include all revenues, receipts and other income derived by the City from the ownership or operation of the System including, without limitation, investment earnings and transfers, if any, from the Rate Stabilization Fund, but excluding (i) any gift, grant or contribution to the extent restricted by the donor or grantor to

a particular purpose inconsistent with its use for the payment of debt service on Bonds, Parity Indebtedness or Subordinate Debt, (ii) proceeds derived from insurance or condemnation and (iii) any transfers from the Revenue Fund to the Rate Stabilization Fund. "Operating Expenses," as defined in the Indenture, include all current expenses directly or indirectly attributable to the ownership or operation of the System, but do not include (i) any allowance for amortization or depreciation, (ii) deposits or transfers to the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Subordinate Debt Service Fund, the Repair and Replacement Reserve Fund or the Rate Stabilization Fund, (iii) payments for Existing Debt Service on City Obligations and (iv) expenditures which the City makes an election to capitalize.

The City may incur "Parity Indebtedness" equally and ratably secured by Net Revenues with the Bonds on terms and conditions similar to those required for the issuance of Additional Bonds. Parity Indebtedness is not secured by the Debt Service Reserve Fund. The City also may issue "Subordinate Debt" secured by a pledge of Net Revenues that is expressly made subordinate to the pledge of Net Revenues securing Bonds or Parity Indebtedness or which is unsecured.

The City has entered into wholesale contracts with the United States Navy, the Western Tidewater Water Authority, and the Cities of Virginia Beach, Chesapeake and Portsmouth. Payments received by the City under these contracts constitute Revenues. See "THE SYSTEM - Wholesale Contracts" below and "Appendix E-SUMMARY OF WHOLESALE CONTRACTS" hereto for a more detailed discussion of these contracts.

Neither the faith and credit of the Commonwealth nor the faith and credit of any county, city, town or other political subdivision of the Commonwealth, including the City, is pledged to the payment of the principal of, premium, if any, or interest on the Bonds, including the 2012 Bonds.

### **Revenue Covenant**

The City has covenanted in the Indenture that it will establish, fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the System, and will, from time to time and as often as appears necessary, revise such rates, fees and other charges, so that in each fiscal year ended June 30 ("Fiscal Year"), Net Revenues are not less than the greater of (i) the sum of 1.1 times debt service on Bonds and Parity Indebtedness and 1.0 times debt service on Subordinated Debt for the Fiscal Year and (ii) 1.0 times the funding requirements for transfers from the Revenue Fund to the Operating Fund, the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Subordinate Debt Service Fund and the Repair and Replacement Reserve Fund (the "Revenue Covenant").

### **Additional Bonds and Parity Indebtedness**

The City may issue Additional Bonds or Parity Indebtedness for "new money" purposes upon receipt of a written certificate of the Director of Finance or, at the City's option, the Consulting Engineer which states that the amount of the Net Revenues as received during any twelve consecutive months of the twenty-four months immediately preceding the issuance of the Bonds or Parity Indebtedness (the "Test Period"), as adjusted as set forth below, will satisfy the Revenue Covenant for the Test Period taking into account the maximum annual debt service due on (i) the Bonds and Parity Indebtedness then outstanding and (ii) the Bonds or Parity Indebtedness to be issued. The Net Revenues which are permitted to be certified by the Director of Utilities or the Consulting Engineer to the Director of Finance may be adjusted as follows:

(a) If the City has increased the rates, fees or other charges for the services or use of the System, the Net Revenues for the Test Period will be adjusted to include the Net Revenues which would have been derived from the System during the Test Period as if such increased rates, fees or other charges for the services or use of the System had been in effect during the Test Period.

(b) If the City has acquired or has contracted to acquire any privately or publicly-owned existing water system, sewer system, sewage disposal system, solid waste collection or disposal system, stormwater collection or disposal system, or any other utility system that the City will consolidate with the System, the cost of which will be paid from all or part of the proceeds of the issuance of the proposed Bonds or Parity Indebtedness, then the Net Revenues derived from the System during the Test Period will be increased by adding to the Net Revenues for the Test Period the projected Net Revenues which would have been derived from the System if such utility system had been operated by the City as part of the System during the Test Period.

(c) If the City has entered into a contract on or before the date of the issuance of the proposed Bonds or Parity Indebtedness with any public body whereby the City has agreed to furnish services consistent with the services performed by the System, which contract (i) is for a duration of not less than the final maturity of the Bonds or Parity Indebtedness proposed to be issued, or (ii) if less than the final maturity of such Bonds or Parity Indebtedness, contains provisions obligating the party contracting with the City to pay in full its allocated share of capital improvements to the System needed to carry out the terms of the contract, then the Net Revenues of the System during the Test Period will be increased by the least amount which the entity receiving such services will be required to pay by the terms of the contract in any one year during which the City is to furnish such services and such Bonds or Parity Indebtedness are anticipated to be outstanding, after deducting from such payment the estimated amount of operating expenses and repair, renewal and replacement costs attributable in such year to such services.

(d) If there is an estimated increase in Revenues to be received by the City, as a result of additions, extensions or improvements to the System within three years after delivery of the proposed Bonds or Parity Indebtedness and the governing body of the City has taken official action authorizing the additions, extensions or improvements (and if the project involves another jurisdiction, the governing body of that jurisdiction has given appropriate approval), then the Net Revenues derived from the System during the Test Period will be increased by the average annual additional Net Revenues estimated for the first two full Fiscal Years after such additions, extensions or improvements are placed in service.

See "Appendix A-DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—ADDITIONAL BONDS AND PARITY INDEBTEDNESS" for additional information regarding the conditions for the issuance of Additional Bonds and Parity Indebtedness.

#### **Debt Service Reserve Fund and Series Reserve Accounts**

The Indenture establishes a Debt Service Reserve Fund which provides additional security for the Prior Series and each Series of Bonds for which the City opts to provide such additional security on a combined basis. The Indenture also permits the City to establish a separate account within the Debt Service Reserve Fund for any Series of Bonds other than the Prior Series and provide for the calculation of a separate Debt Service Reserve Requirement for such Series, which may be zero. Such Series of Bonds will have no claim on the other moneys deposited to the credit of the Debt Service Reserve Fund or any account therein. **The Ninth Supplemental Indenture provides for the establishment of such a separate account in the Debt Service Reserve Fund for the 2012 Bonds and provides that the Debt Service Reserve Requirement for the 2012 Bonds is zero.** See "AMENDMENTS TO THE MASTER INDENTURE" above.

Neither the Debt Service Reserve Fund nor any account therein secures Parity Indebtedness.

#### **Other Debt**

The City has issued general obligation bonds from time to time to pay for improvements to the Water System. The City anticipates that transfers described in the following section will be made from the General Reserve Fund to the City's debt service fund to pay the debt service on such general obligation bonds. The City expects that future capital costs for the Water System which are financed with debt will be paid from proceeds of Bonds issued pursuant to the Indenture. Since Fiscal Year 1980, the year in which the City's Water Utility Fund was first operated as a self-supporting enterprise fund, all debt service on general obligation bonds attributable to the System has been paid from revenues of the System. As of June 30, 2011, \$3,896,689 of general obligation bonds attributable to the Water System were outstanding of which \$2,058,267 of principal was scheduled and paid during Fiscal Year 2012. The final payment on such general obligation bonds is due in Fiscal Year 2015.

#### **Flow of Funds**

The Indenture provides that the City will collect and deposit in the Revenue Fund as received all Revenues derived from the ownership or operation of the System, except as otherwise provided for in the Indenture for investment income on certain funds and accounts created by the Indenture. Not later than the fifth business day before the end of each month, the City will make transfers from the Revenue Fund in the following order of priority:

*Operating Fund.* An amount such that the balance on deposit in the Operating Fund will be equal to not less than one-sixth of the Operating Expenses to be paid from the Operating Fund in the then-current Fiscal Year as set forth in the annual budget for the System.

*Bond Fund.* The amount necessary to make the following deposits:

(a) *Interest Account.* An approximately equal amount each month such that (after taking into consideration with respect to each Series of Bonds the amount then on deposit in the Interest Account, any amount to be transferred from the Capitalized Interest Account to the Interest Account pursuant to the terms of any Supplemental Indenture and any amounts to be drawn or paid under any Credit Facility or Hedge Agreement for deposit to the Account), on the fifth business day immediately preceding the next interest payment date for each Series of Bonds, there will be on deposit in the Interest Account an amount equal to the interest on the Outstanding Bonds of each Series to become due on such Interest Payment Date.

(b) *Principal Account.* An approximately equal amount each month such that (after taking into consideration with respect to each Series of Bonds the amount then on deposit in the Principal Account and any amounts to be drawn or paid under any Credit Facility or Hedge Agreement for deposit to the Account), on the fifth business day immediately preceding the next principal payment date for each Series of Bonds, there will be on deposit in the Principal Account an amount equal to the principal and accreted value of the Outstanding Bonds of each Series maturing or required to be redeemed on such Principal Payment Date.

*Parity Debt Service Fund.* An amount with respect to any Parity Indebtedness such that (after taking into consideration the amount then on deposit in the Fund and any amounts to be drawn or paid under any Credit Facility or Hedge Agreement for deposit to the Fund) if the same amount is transferred to the Fund each month preceding the next ensuing Interest Payment Date or Principal Payment Date for the Parity Indebtedness, there will be on deposit in the Fund an amount equal to the payment due on the Parity Indebtedness on such payment date.

*Debt Service Reserve Fund.* If the amount in the Debt Service Reserve Fund or any account therein is less than its respective Debt Service Reserve Requirement, the amount of money remaining in the Revenue Fund necessary to restore the Debt Service Reserve Fund and the accounts therein to their respective Debt Service Reserve Requirements on a pro rata basis, or all of the money remaining if less than the amount necessary; provided that such restoration of the amount in the Debt Service Reserve Fund and any account therein must occur not later than twelve months following the determination of the deficiency.

*Subordinate Debt Service Fund.* Such amount with respect to any Subordinate Debt as may be determined by the City to be necessary to provide for the payment when due of the principal of and interest on the Subordinate Debt.

*Repair and Replacement Reserve Fund.* The amounts necessary to bring the balance in the Repair and Replacement Reserve Fund to the Replacement Reserve Requirement in not more than (i) thirty-six approximately equal monthly installments for the initial Requirement and (ii) sixty approximately equal monthly installments in the case the Requirement is increased or moneys are withdrawn from the Fund. The "Replacement Reserve Requirement" was initially established and remains at \$1,000,000. The City will review periodically the adequacy of the amount of the Requirement and may increase or reduce (but not below the initial Requirement) such amount. Balances in the Repair and Replacement Reserve Fund may be used to pay for major repairs, additions and other capital improvements to the System and to make deposits to the Revenue Fund, Operating Fund, Bond Fund, Parity Debt Service Fund and Debt Service Reserve Fund.

*Rate Stabilization Fund.* The amounts necessary to bring the balance in the Rate Stabilization Fund to the Rate Stabilization Requirement in not more than twenty-four equal monthly installments. The City will review the adequacy of the amount of the Requirement and may adjust the Requirement at any time as it deems appropriate. Balances in the Rate Stabilization Fund may be transferred to the Operating Fund and will constitute Revenues. The City is not required to maintain any balance in the Rate Stabilization Fund.

*General Reserve Fund.* Any balance remaining in the Revenue Fund, after making the above deposits, will be deposited in the General Reserve Fund. Balances in the General Reserve Fund are not pledged to secure Bonds or Parity Indebtedness and may be used by the City for any lawful purpose. The City agrees to use amounts in the General Reserve Fund to cure any deficiency in the Operating Fund, the Bond Fund, the Parity Debt Service Fund and the Debt Service Reserve Fund. The City anticipates transferring from the General Reserve Fund to the City's

general fund an amount equal to the sum of (i) debt service on general obligation bonds of the City issued to pay costs of the System, (ii) a payment in lieu of taxes and (iii) a return to the City for its investment in the System. These transfers to the City's general fund are not required by the Indenture.

In the event there are insufficient funds in the Revenue Fund to make the transfers required by the Bond Fund and the Parity Debt Service Fund, the City will allocate the available funds between the Bond Fund and the Parity Debt Service Fund in the proportion that the amount required to be deposited to each Fund bears to the total amount required to be deposited to both Funds.

See "Appendix A-DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" hereto for a further description of the flow of funds.

### **Limits on Enforceability**

The enforceability of the Indenture and the 2012 Bonds is subject to bankruptcy, insolvency, moratorium, reorganization and other state and federal laws affecting the enforcement of creditors' rights and to the extent that certain remedies under such agreements or instruments require, or may require, enforcement by a court, such principles of equity as the court having jurisdiction may impose. See "Appendix A-DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE - Events of Default; and Remedies; Rights of Bondholders" hereto.

*Bankruptcy.* Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code") permits a municipality such as the City, if insolvent or otherwise unable to pay its debts as they become due, to file a voluntary petition for the adjustment of debts provided that such municipality is "specifically authorized, in its capacity as a municipality or by name, to be a debtor..." Bankruptcy Code, §109(c)(2). Current Virginia statutes do not expressly authorize the City or municipalities generally to file under Chapter 9. Chapter 9 does not authorize the filing of involuntary petitions against municipalities such as the City.

Bankruptcy proceedings by the City could have adverse effects on holders of the 2012 Bonds, including (i) delay in the enforcement of their remedies, (ii) subordination of their claims to claims of those supplying goods and services to the City after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings and (iii) imposition without their consent of a plan of reorganization reducing or delaying payment of the 2012 Bonds. The Bankruptcy Code contains provisions intended to ensure that, in any plan of reorganization not accepted by at least a majority of any class of creditors such as the holders of the 2012 Bonds, such class of creditors will have the benefit of their original claim or its "indubitable equivalent," although such "equivalent" may not provide for payment of the 2012 Bonds in full. The effect of these and other provisions of the Bankruptcy Code cannot be predicted and may be significantly affected by judicial interpretation.

### **SOURCES AND USES OF FUNDS**

The expected amounts of the proceeds of the 2012 Bonds and certain other related City funds and the application thereof are as follows:

#### *Sources of Funds:*

Par Amount of the 2012 Bonds	\$ 176,925,000.00
Net Original Issue Premium on the 2012 Bonds	31,581,181.25
Transfer from the Bond Fund	<u>8,614,239.77</u>

<i>Total Sources of Funds</i> .....	\$ <u>217,120,421.02</u>
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#### *Uses of Funds:*

Refunding Escrow Fund	\$ 216,058,574.79
Underwriters' Discount	557,304.56
Costs of Issuance <sup>1</sup>	<u>504,541.67</u>

<i>Total Uses of Funds</i> .....	\$ <u>217,120,421.02</u>
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<sup>(1)</sup> Includes legal, financial advisory, rating, printing and other costs of issuing the 2012 Bonds.

## DEBT SERVICE REQUIREMENTS

Annual revenue bond debt service requirements on the Outstanding Bonds, together with the 2012 Bonds, are shown in the table below. Totals may not sum due to rounding.

Fiscal Year Ending	Existing Revenue Bond Debt (as of April 4, 2012) <sup>(1)</sup>			2012 Bonds			Total Revenue Bond Debt
	Principal	Interest	Total	Principal	Interest	Total	Total
6/30/12	\$ 0.00	\$ 2,599,759.38	\$ 2,599,759.38	\$ 0.00	\$ 0.00	\$ 0.00	\$ 2,599,759.38
6/30/13	2,465,000.00	5,165,956.25	7,630,956.25	4,535,000.00	9,110,102.50	13,645,102.50	21,276,058.75
6/30/14	2,530,000.00	5,097,918.75	7,627,918.75	4,720,000.00	8,378,800.00	13,098,800.00	20,726,718.75
6/30/15	2,615,000.00	5,016,968.75	7,631,968.75	5,190,000.00	8,227,800.00	13,417,800.00	21,049,768.75
6/30/16	2,710,000.00	4,921,293.75	7,631,293.75	6,040,000.00	7,973,000.00	14,013,000.00	21,644,293.75
6/30/17	2,820,000.00	4,811,893.75	7,631,893.75	7,835,000.00	7,626,125.00	15,461,125.00	23,093,018.75
6/30/18	2,350,000.00	4,698,268.75	7,048,268.75	11,510,000.00	7,142,500.00	18,652,500.00	25,700,768.75
6/30/19	3,085,000.00	4,576,368.75	7,661,368.75	11,735,000.00	6,561,375.00	18,296,375.00	25,957,743.75
6/30/20	3,225,000.00	4,436,268.75	7,661,268.75	12,440,000.00	5,957,000.00	18,397,000.00	26,058,268.75
6/30/21	2,695,000.00	4,303,268.75	6,998,268.75	14,065,000.00	5,294,375.00	19,359,375.00	26,357,643.75
6/30/22	2,810,000.00	4,187,143.75	6,997,143.75	14,930,000.00	4,569,500.00	19,499,500.00	26,496,643.75
6/30/23	2,940,000.00	4,065,318.75	7,005,318.75	16,065,000.00	3,794,625.00	19,859,625.00	26,864,943.75
6/30/24	3,850,000.00	3,909,643.75	7,759,643.75	16,290,000.00	2,985,750.00	19,275,750.00	27,035,393.75
6/30/25	4,035,000.00	3,728,143.75	7,763,143.75	12,745,000.00	2,259,875.00	15,004,875.00	22,768,018.75
6/30/26	4,225,000.00	3,537,918.75	7,762,918.75	13,580,000.00	1,601,750.00	15,181,750.00	22,944,668.75
6/30/27	4,420,000.00	3,338,737.50	7,758,737.50	6,105,000.00	1,109,625.00	7,214,625.00	14,973,362.50
6/30/28	4,630,000.00	3,130,137.50	7,760,137.50	6,485,000.00	794,875.00	7,279,875.00	15,040,012.50
6/30/29	4,850,000.00	2,915,556.25	7,765,556.25	6,930,000.00	459,500.00	7,389,500.00	15,155,056.25
6/30/30	5,065,000.00	2,697,993.75	7,762,993.75	1,785,000.00	241,625.00	2,026,625.00	9,789,618.75
6/30/31	5,285,000.00	2,474,425.00	7,759,425.00	1,905,000.00	149,375.00	2,054,375.00	9,813,800.00
6/30/32	5,525,000.00	2,241,478.13	7,766,478.13	2,035,000.00	50,875.00	2,085,875.00	9,852,353.13
6/30/33	5,775,000.00	1,988,334.38	7,763,334.38	0.00	0.00	0.00	7,763,334.38
6/30/34	6,045,000.00	1,713,981.25	7,758,981.25	0.00	0.00	0.00	7,758,981.25
6/30/35	6,335,000.00	1,426,625.00	7,761,625.00	0.00	0.00	0.00	7,761,625.00
6/30/36	6,635,000.00	1,128,278.13	7,763,278.13	0.00	0.00	0.00	7,763,278.13
6/30/37	5,515,000.00	851,656.25	6,366,656.25	0.00	0.00	0.00	6,366,656.25
6/30/38	5,770,000.00	598,150.00	6,368,150.00	0.00	0.00	0.00	6,368,150.00
6/30/39	6,030,000.00	335,956.25	6,365,956.25	0.00	0.00	0.00	6,365,956.25
6/30/40	2,555,000.00	150,850.00	2,705,850.00	0.00	0.00	0.00	2,705,850.00
6/30/41	2,660,000.00	49,875.00	2,709,875.00	0.00	0.00	0.00	2,709,875.00
Total	<u>\$119,450,000.00</u>	<u>\$90,098,168.75</u>	<u>\$209,548,168.75</u>	<u>\$176,925,000.00</u>	<u>\$84,288,452.50</u>	<u>\$261,213,452.50</u>	<u>\$470,761,621.25</u>

(1) Net of Refunded Bonds.

Source: Department of Finance.

## DEPARTMENT OF UTILITIES

### Introduction

The Department of Utilities (the "Department") operates and maintains the City's water and wastewater systems and oversees the Water and Wastewater Enterprise Funds. For additional information about the City, see "Appendix D-CERTAIN INFORMATION CONCERNING THE CITY" hereto.

The City operates under the City Council-Manager form of government. Policymaking and legislative authorities are vested in the governing City Council, which consists of a mayor and seven-member council. Members of the City Council serve four-year staggered terms. The City Council appoints the City Manager. The City Council is the only body with authority to set water rates and fees charged by the City.

The principal members of the City's management team and their experience are described in Appendix D to this Official Statement.

### **Organizational Structure**

The Department currently employs approximately 290 employees who are grouped into seven divisions. A brief description of each division, follows:

- **Director's Office.** Responsible for overall administration of the Department, including public information, human resources and grants management.
- **Water Production.** Responsible for operation and maintenance of water treatment plants and finished water storage facilities. Maintains raw and finished water pump stations and raw water transmission mains. Reviews any encroachments or activities on the reservoirs.
- **Water Quality.** Responsible for assuring that System water continues to meet state and federal regulations through laboratory analysis and reporting to regulatory agencies. Manages raw water resources.
- **Water Distribution.** Responsible for the maintenance of over 800 miles of water mains. Also responsible for repair, replacement and installation of fire hydrants and valves and the detection of leaks in the distribution system. Provides routine flushing of water mains and the installation of service main extensions.
- **Engineering.** Responsible for engineering design, construction oversight, contract management and capital improvement program development. Also responsible for underground utility identification under the Miss Utility program, and other engineering functions.
- **Accounting and Budget.** Responsible for financial oversight, budgeting and expenditure tracking for all phases of the utility operations. Coordinates with the City's Finance Department to maintain consistency in financial reporting and recordkeeping.
- **Water Accounts.** Responsible for handling customer service inquiries concerning billing and establishment and disconnection of services. Coordinates the reading of meters. Also responsible for billing and collection activities in conjunction with joint billing arrangement with Hampton Roads Sanitation District ("HRSD").

A summary of the Department's management team and their experience is as follows:

#### **Kristen M. Lentz, P.E., Director of Utilities**

Kristen M. Lentz, P.E., was appointed Acting Director of Utilities in 2001 and Director of Utilities in 2002. Ms. Lentz is a registered professional engineer and has approximately 33 years of professional experience. Prior to her appointment, Ms. Lentz held the positions of Assistant Director of Public Works for the City for nine years and has served as City Engineer and Director of Engineering and Utilities for the City of Poquoson, Virginia. She holds a Bachelor of Science degree in Civil Engineering from Old Dominion University, Norfolk, Virginia. She also serves on the Old Dominion University Civil and Environmental Engineering Visiting Council.

#### **Eric G. Tucker, Assistant Director of Utilities**

Eric G. Tucker, began serving as the Assistant Director of Utilities in August 2008. Prior to his promotion, he served as the Utility Operations Manager for the Department for six years. Mr. Tucker has approximately 28 years of professional experience and has held technical management positions with PEMCCO, Incorporated, and ThyssenKrupp Elevator, as well as engineering positions with URS Corporation, Camp Dresser and McKee, Inc. and CDI Marine Company. Mr. Tucker holds a Bachelor of Science degree in Industrial Technology from Virginia State University, Petersburg, Virginia and a Masters of Business Administration degree from Averett University, Danville, Virginia. He also holds certifications in Work Zone Traffic Control, FEMA Hurricane Recovery and Mitigation and the National Incident Management System.

#### **Robert A. Carteris, Manager of Budget and Accounting**

Robert A. Carteris, the Department's Manager of Budget and Accounting, has worked for the Department since March 2007. Prior to his appointment as Manager of Budget and Accounting, Mr. Carteris had been a senior financial officer for various European-based multinational companies engaged in manufacturing, international trade, shipping and logistics. He has over 35 years of professional experience in accounting, finance, treasury and administration. He holds a Bachelor of Science degree in Accounting from Manhattan College, New York, New York and a Master of Business Administration and Policy from Baruch College, New York, New York.

#### **Charles L. Dunbar, Operations Manager**

Charles L. Dunbar was appointed the Department's Operations Manager in August 2009. Mr. Dunbar has approximately 15 years of professional experience and held management and supervisory positions with United States Steel Corporation, Corn Products International, Perdue Farms and Norfolk State University. Mr. Dunbar holds a Bachelor of Science degree in Engineering Technology from Virginia State University, Petersburg, Virginia, a Masters degree in Engineering Management from Point Park College, Pittsburgh, Pennsylvania and a Master of Business Administration degree from Strayer University, Washington, D.C.

#### **Chris E. Harbin, Water Production Manager**

Chris E. Harbin has served as the Department's Water Production Manager since February 2010. Mr. Harbin came to the Department with over 29 years experience in water treatment plant management and operations. His experience includes positions from Waterworks Treatment Plant Operator to Water Treatment Plant Manager. He holds a Bachelor of Science degree in Biology from Christopher Newport University, Newport News, Virginia. Mr. Harbin currently serves on the Virginia Section American Waterworks Association Plant Operations Committee.

#### **Trinette D. Hodges, Customer Service Manager**

Trinette D. Hodges has served as the Department's Customer Service Manager since February 2008. Her responsibilities include overseeing the Department's call center, collection and billing divisions. Ms. Hodges has over 20 years of professional experience and is a member of multiple professional organizations. Prior to joining the Department, she held various management positions in both customer service and quality in the private sector. Ms. Hodges holds a Bachelor of Arts degree in Rhetoric and Communications from the University of Virginia, Charlottesville, Virginia.

#### **Harry C. Kenyon, A.P.R., Management Services Administrator**

Harry C. Kenyon, A.P.R., has served as the Department's Management Services Administrator since October 2008. He has 35 years of public relations experience in federal, state and municipal agencies. Before joining the Department, he was the Public Relations Manager for the Hampton Roads District of the Virginia Department of Transportation and with the City of Chesapeake, Virginia as the Public Works Information Specialist. He also served 22 years in the U.S. Navy as a Chief Journalist and Public Affairs Officer and was assigned as the staff journalist for the Chief of Naval Operations in the Pentagon. He retired from active service in June 1999. He is a graduate of City University, Bellevue, Washington, and the Defense Information School, Fort Benjamin Harrison, Indiana. In 2002, he received his Accreditation in Public Relations from the Universal Accreditation Board of the Public Relations Society of America.



### **Alicia A. Connelly, Water Quality Manager**

Alicia A. Connelly has been with the Department of Utilities since 1985 and was recently promoted in January 2012 as the Department's Water Quality Manager. Prior to her promotion, Ms. Connelly served as both the Assistant Superintendent of Utilities Division and the Water Quality Laboratory Supervisor. Ms. Connelly holds a Bachelor's degree in Biology and Chemistry from Old Dominion University, Norfolk, Virginia, along with numerous certifications for laboratory management, water treatment and management. She is a member in the American Water Works Association (AWWA), Virginia Water Environmental Federation (VWEA), and has served Chairman of the Virginia AWWA/VWEA Laboratory Practice Committee.

### **Kenneth R. Turner, P.E., Engineering Manager**

Kenneth R. Turner, P.E., has served as the Department's Engineering Manager since November 2005. Mr. Turner is a registered professional engineer and has been licensed with the Commonwealth for 25 years. He holds a Bachelors degree in Civil Engineering from Old Dominion University, Norfolk, Virginia. His responsibilities with the Department include overseeing the City's Capital Improvement Plan (the "CIP") and administering the annual budget which includes replacement of water and sewer pipes throughout the City's water and sewer system, rehabilitation of the 37<sup>th</sup> Street Water Treatment Plant (the "37<sup>th</sup> Street WTP") and significant dam safety improvement projects on the western reservoir system. Prior to working for the City, he served as Regional Manager of Construction Service and as Civil Engineering Manager with the consulting firm of Michael Baker, Jr. Inc.

### **Management Initiatives**

Developments since the City last issued Water Revenue Bonds in 2010 include:

- The Lake Burnt Mills Dam rehabilitation, final design, property acquisition and easement acquisition has progressed. The completion of this \$16 million project is anticipated in early Fiscal Year 2013.
- Division of Engineering continued with its aggressive CIP program to replace aging infrastructure in the City. During Fiscal Year 2010 and 2011, the division received bids for approximately \$73 million and replaced approximately 62,000 feet of water mains and 78,000 feet of sewer mains.
- The Department continued recycling Moores Bridges Water Treatment Plant (the "Moores Bridges WTP") residual solids through beneficial agricultural reuse which saves landfill space and reduces operating cost for the City.
- The Department saved approximately \$300,000 in energy costs through EnergyConnect program to curtail electricity use during high-demand periods.
- The Department is nearing completion of \$10 million renovation to 37<sup>th</sup> Street WTP, phase 2 and continuing the design of phase 3 of the project. Improvements at the 37<sup>th</sup> Street WTP include rehabilitation of settling basins, new solids pumping station and new solids cable vac system which improves solids removal. An additional Plant diesel generator was installed at the 37<sup>th</sup> Street WTP for future emergency power needs.
- The Department is replacing the sludge handling equipment used for the residual dewatering process at the Moores Bridges WTP. Other ongoing Moores Bridges WTP improvements include rehabilitation of basin 7 and 8 solids collection system, installation of low pumps, installation of IMS filter caps, and various mechanical, electrical and piping equipment.
- The Department completed work on a natural gas engine replacement which runs a 15 mgd pump. This increases the City's System reliability to maintain pressure and uninterrupted delivery of finished water.
- The Utilities Technology team is currently converting the entire SCADA system to a new system utilizing Verizon Wireless cellular modems. This system integrates with the City's current SCADA system and collects treated water flow and pressure data from thirty-seven remote monitoring sites and records it to the

central monitoring system at the Moores Bridges WTP. By doing this upgrade in-house with City personnel projected savings are approximately \$2 million.

- The Department received its new permit to withdraw groundwater on February 1, 2012, from the Virginia Department of Environmental Quality. The permit allows the City to withdraw enough groundwater to withstand the drought of record. It is valid for the next 10 years and authorizes the City to withdraw 13,651 million gallons over the current permit period.

Future initiatives of the Department include:

- The continued implementation of the long-term infrastructure renewal plan. The plan will address the condition of dams to meet federal and state dam safety regulations, the upgrade of aging sections of raw and finished water piping and the upgrade of components of the 37<sup>th</sup> Street WTP.
- The marketing of surplus water.

## **THE SYSTEM**

### **History and Overview**

The City developed a surface water supply network starting with the use of a spring near Main Street in the late 1600s, through the development of an in-town lake system in the late 1800s, to the development of Lake Prince and Lake Burnt Mills in the City of Suffolk, Virginia ("Suffolk") and the County of Isle of Wight, Virginia ("Isle of Wight") in 1918 and the Western Branch Reservoir in Suffolk in 1962. In the 1940s through the 1960s the System expanded, and the Blackwater and Nottoway River intakes in the County of Southampton, Virginia ("Southampton") were added. The existing surface water supply is sufficient to meet the 50-year projected water needs of Norfolk's residents and businesses and all current contract and non-contract wholesale requirements.

In order to process water, two WTPs have been constructed and maintained. See "THE SYSTEM-Water Treatment Plants" below. The Moores Bridges WTP, constructed in the late 1890s, currently treats all public water consumed in the City of Virginia Beach, Virginia ("Virginia Beach") serves a portion of the City of Chesapeake, Virginia ("Chesapeake"), and treats and supplies portions of the water consumed in the City. The 37<sup>th</sup> Street WTP, originally put into service in the 1920s, supplies water to the remainder of the City. Both treatment plants serve the United States Navy.

Over time, the System has developed and expanded into the major regional provider of water for South Hampton Roads, currently serving an area encompassing a population of approximately 850,000, or approximately 10% of the population of the Commonwealth.

The first transmission line to Virginia Beach was installed in 1924, and the City has provided water to its neighbor ever since through long-term water supply contracts. A water services contract provides for the System's wheeling and treating of Virginia Beach raw water, either from Lake Gaston or Stumpy Lake, through Fiscal Year 2030. Additionally, the Navy and Chesapeake are long-standing wholesale treated water customers. Although the City currently has no separate water supply contract with Chesapeake, the City sells water to Chesapeake at a rate of \$5.49 per 1,000 gallons which increases by 3.5% in subsequent fiscal years. Starting on July 1, 2006, the City also began selling raw water to Chesapeake. See "THE SYSTEM-Wholesale Contracts" below and "Appendix E-SUMMARY OF WHOLESALE CONTRACTS" hereto for further discussion of relationships with the City of Portsmouth, Virginia ("Portsmouth"), Chesapeake, Virginia Beach, the Western Tidewater Water Authority (serving the City of Suffolk and Isle of Wight County) (the "WTWA") and the United States Navy. The City also provides raw water to a U.S. military facility in Portsmouth.

### **Water Supply**

The System receives water from a series of eight City-owned water supply reservoirs which are located as follows: three in Suffolk and Isle of Wight (which collectively are known as the "Western Reservoir System"), three in Virginia Beach, and two in Norfolk (which collectively are known as the "In-Town Reservoirs"). The System's current raw water storage capacity is 15.2 billion gallons. These reservoirs are supplemented by two river intakes at the Blackwater and Nottoway Rivers and four ground water wells owned by the City that are available in times of shortages.

As more fully discussed in "THE SYSTEM-Wholesale Contracts" below and in "Appendix E-SUMMARY OF WHOLESALE CONTRACTS" hereto, the City and Virginia Beach entered into the Water Services Contract (as herein defined), to provide for the treatment and delivery of raw water supplied by the City to Virginia Beach, whether from Lake Gaston or Stumpy Lake, up to the contract maximum limit of 45.0 mgd, or 46.8 mgd upon request from Virginia Beach and approval from Norfolk. Under the utility basis of cost recovery for this Contract, Virginia Beach is paying the City its proportionate share of annual operation and maintenance expense, depreciation, and return on specific System facilities used by the City to provide service to Virginia Beach. Such facilities include several expansion and improvement projects to increase the System's capacity to receive Lake Gaston water for treatment at the Moores Bridges WTP; improvements to master water meters; construction of a raw water pumping station, a raw water booster pumping station and a second high service pumping station at the Moores Bridges WTP; construction of raw water and treated water transmission mains; and hydraulic improvements at the Moores Bridges WTP, including improvements to flash mixers, sedimentation basin, filters, plant laboratory, maintenance facilities and administrative offices.

On April 28, 1995, the City commenced the System improvements necessary to treat the Lake Gaston water after the City was requested to do so by Virginia Beach. Under the terms of the Water Services Contract, Virginia Beach is obligated to pay the City for all costs so incurred irrespective of Virginia Beach's ability to continue to provide Lake Gaston water.

*Regional Water Requirements.* The Moores Bridges WTP was expanded to provide for the treatment of up to 45 mgd of raw water that Virginia Beach receives from the Lake Gaston Reservoir. Norfolk is treating this water under a water services contract that went into effect in Fiscal Year 1998. This released 32 mgd of raw water from the Norfolk System that was being sold to Virginia Beach under the then existing water supply contract. The sale of 7 mgd of raw water under the City's wholesale raw water contract with Chesapeake began July 1, 2006. On September 29, 2009, the City entered into a 40-year raw water sales agreement with the WTWA to furnish a minimum of 3 mgd and gradually increasing to 15 mgd by 2038. Norfolk believes that continued growth in the South Hampton Roads area, including Virginia Beach, will generate a demand for this water.

### **Water Treatment Plants**

The City owns and, through the Department, operates two major water treatment plants, the Moores Bridges WTP and the 37<sup>th</sup> Street WTP. The Moores Bridges WTP, with a rated capacity of 108 mgd (maximum day), provides finished water primarily to the eastern two-thirds of the City and Virginia Beach. The 37<sup>th</sup> Street WTP, with a rated capacity of 28 mgd (maximum day), provides finished water primarily to the western one-third of the City. Flow from both treatment plants serves the Navy facilities in Norfolk and the Moores Bridges WTP serves the urban northeastern section of Chesapeake.

Hampton Roads Sanitation District presented the Moores Bridges WTP and the 37<sup>th</sup> Street WTP with the 2010 and 2011 Pretreatment Excellence and Pollution Prevention Awards and in 2011 the 37<sup>th</sup> Street WTP received a Silver award for Pretreatment Excellence from the Virginia Water Environmental Association.

### **Water Distribution and Storage Facilities**

The System's distribution facilities within Norfolk include two ground level storage tanks with pumping stations, two elevated water storage tanks, approximately 17,338 water valves and approximately 4,546 hydrants. Treated water is distributed throughout the City, to the city limits of Virginia Beach and Chesapeake, and to the gates of the Norfolk Navy facilities by more than 800 miles of water mains. For Fiscal Year 2011, peak-day water production was 76.4 mgd and average day production was approximately 61.7 mgd. Average unaccounted for water was approximately 6.2 mgd, such as losses, water used for fire protection, and the flushing of water mains. According to the American Water Works Association ("AWWA"), the optimum unaccounted for water level for efficient distribution systems should be less than 10% of volume of water produced. Nationwide, AWWA reports that water utilities average about 15% unaccounted-for water. For Fiscal Year 2011, the System's unaccounted-for water level was approximately 10% which is within AWWA's acceptable levels.

### **Permits**

The City has obtained all governmental permits, licenses, registrations, certificates, authorizations and approvals currently required for the City's ownership and operation of the Water System and is aware of no reason

why any such governmental permits, licenses, registrations, certificates, authorizations and approvals to be required in the future cannot be obtained as needed.

### **Mandatory Connection**

Norfolk is a mature city, the land area of which is almost completely developed and served by the Water System's retail distribution facilities. The City Code requires the owner or tenant of any improved piece of property located within the City and bordering upon a street or alley along which a public water line has been laid to connect that same property with such public water supply line and makes it unlawful to use private wells or other alternative facilities where City water lines are available for connection thereto; provided, however, that owners or tenants of residences connected to such lines may use alternative water sources for residential heating and cooling purposes, irrigation and for maintaining residential and related personal property normally kept outdoors.

### **Customer Base**

As of June 30, 2011, the Water System provides potable water to approximately 64,289 Norfolk retail service customers (i.e. accounts) and wholesale service to the United States Navy, Virginia Beach, Chesapeake, Portsmouth and the WTTA (which includes the City of Suffolk and Isle of Wight County). Population in the area served by the Water System totals approximately 1.1 million people. The average annual daily amount of finished water pumped for Fiscal Year 2011 was 61.7 mgd, including approximately 4.1 mgd of unaccounted-for water.

**Table 1**  
**Average Daily Metered Consumption**  
**Fiscal Year 2011**

	<u><b>Metered Consumption (mgd)</b></u>	<u><b>Percent of Total</b></u>
Norfolk Retail	17.4	30.2%
Virginia Beach	33.7	58.5
Navy	4.3	7.5
Chesapeake	<u>2.2</u>	<u>3.8</u>
Total <sup>(1)</sup>	<u>57.6</u>	<u>100.0%</u>

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<sup>(1)</sup> Delivery of water to the WTTA is not expected to begin until 2014. Portsmouth purchases raw water only on an emergency basis and is an insignificant daily metered consumer.

Source: Department of Utilities.

Table 2 provides data on the System's ten largest retail customers for Fiscal Year 2011.

**Table 2**  
**Ten Largest Retail Customers**  
**Fiscal Year 2011**

<u>Retail Customer</u>	<u>Annual Water Consumption (1,000 gallons)</u>	<u>Annual Water Consumption as % of Total Consumption of 24,726,679</u>
Norfolk Redevelopment and Housing Authority	438,471	1.77%
Old Dominion University	175,362	0.71
Norshipco	154,861	0.63
Virginia International Terminal	132,645	0.54
Sentara Norfolk General Hospital	130,853	0.53
Norfolk State University	85,615	0.35
S.L. Nusbaum (Property Management)	78,749	0.32
Metro Machine Corporation	59,964	0.24
Bon Secours DePaul Medical Center	51,755	0.21
Medical College of Hampton Roads	<u>45,380</u>	<u>0.18</u>
Total	<u>1,353,655</u>	<u>5.47%</u>

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Source: Department of Utilities.

The ten largest retail customers together represent less than 5.5% of total water consumption, and no single retail customer represents more than 1.8% of total consumption.

### **Wholesale Contracts**

The City maintains wholesale contracts or water service agreements with Chesapeake, Virginia Beach, Portsmouth, the Navy and the WTW. These contracts and agreements set forth the amount of water to be sold, rate setting procedures, metering points, dispute resolution and other matters.

The descriptions of the contracts and agreements set forth below are brief outlines or summaries of certain provisions. For a more detailed description of the contracts and agreements see "Appendix E-SUMMARY OF WHOLESALE CONTRACTS" hereto. The outlines and summaries set forth above and in Appendix E do not purport to be complete, and reference should be made to each respective contract or agreement. Copies of the contracts and agreements may be obtained from the City for a full and complete statement of their provisions.

*City of Virginia Beach.* On July 14, 1993, the City entered into a water sales contract (the "Water Sales Contract") and a water services contract (the "Original Water Services Contract") with Virginia Beach. The Water Sales Contract served as an interim arrangement for the sale of surplus System water to Virginia Beach pending completion of the Lake Gaston Project. Beginning on January 1998, the Original Water Services Contract provided for the City's treatment and delivery of potable Lake Gaston water to Virginia Beach now that the Lake Gaston Project is completed. In 2001, the Original Water Services Contract was amended and restated (as amended and

restated, the "Water Services Contract"). As of June 2004, the Water Services Contract covers the use of Virginia Beach's Stumpy Lake raw water source in conjunction with Lake Gaston water.

The Water Services Contract is a long-term contract (effective through June 30, 2030) which requires the City to receive, convey, treat and deliver to Virginia Beach up to an average of 45 mgd, or 46.8 mgd upon Virginia Beach's request and Norfolk's approval, of finished water to be provided from Virginia Beach's two raw water sources. The Water Services Contract establishes engineering, water quality and operational standards for the City to meet as it provides service to Virginia Beach. Accordingly, certain components of the System, including raw water storage, raw water pumping stations and transmission lines, water treatment plants and treated water storage, and finished water pumping and transmission facilities, will be utilized to provide treated water to Virginia Beach. The Water Services Contract also provides that Virginia Beach will pay its proportionate share of the capital costs of the System irrespective of Virginia Beach's ability to provide raw water.

Certain components of the payments required by the Water Services Contract are not related to actual water usage. All payments by Virginia Beach under the Water Services Contract are secured solely by revenues received by Virginia Beach from charges paid by users of its water and sewer system. The Water Services Contract requires that such payments be designated by Virginia Beach as operating expenses of its water and sewer system and, as such, are payable ahead of debt service on future general obligation bonds and revenue bonds paid from Virginia Beach water and sewer system revenues. The Water Services Contract may be terminated by the City or by Virginia Beach upon the occurrence of various events.

*City of Chesapeake.* The City sells Chesapeake wholesale finished water at various delivery points for service to the northeastern section of Chesapeake. Sales in Fiscal Year 2011 averaged 2.2 mgd which represents approximately 3.4% of the System's total metered water consumption. Rates are set by ordinance of the City Council.

In December, 2002, the City entered into a raw water sales contract with Chesapeake for the sale of a portion of the City's surplus raw water to Chesapeake. The contract start-up date was July 1, 2006, and the term is through December 31, 2042. The contract specifies the terms and conditions of the sale, rates, termination provisions and dispute resolution. This is a "take or pay" contract for 7 mgd. Raw water sales averaged 7.1 mgd in Fiscal Year 2011. In the contract, the City agrees to sell and deliver to Chesapeake and Chesapeake agrees to accept a targeted amount of raw water transmitted to the extent possible at a uniform flow rate.

The current water rate is \$1.17 per thousand gallons of surplus raw water sold. Each July 1, the then existing water rate shall be adjusted based on the change in the Consumer Price Index, but in no instance shall the water rate decrease. Chesapeake began making monthly payments for the metered amount of surplus raw water delivered on August 1, 2006.

*City of Portsmouth.* In 2002, the City entered into a contract with Portsmouth for the sale of emergency raw water. Portsmouth has constructed the necessary improvements to convey the raw water to its treatment facility. According to the contract, the City shall endeavor to deliver and sell to Portsmouth up to 10 mgd of temporary surplus raw water. The rate of the temporary surplus raw water sold pursuant to the contract shall total \$1.17 per thousand gallons. In Fiscal Year 2008, during the period August 2007 through January 2008, the City sold Portsmouth approximately 7.4 mgd of raw water. In September 2010 of Fiscal Year 2011 the City sold Portsmouth approximately 9.85 mgd of raw water.

*United States Navy.* The City has a long-standing relationship of providing water to the United States Navy ("Navy") on a wholesale basis. The contract was modified effective July 1, 2003, to establish treated water rates applicable to the Navy facilities in Norfolk and Virginia Beach. Sales to the Navy averaged 4.28 mgd in Fiscal Year 2011, which represents approximately 6.6% of total metered water consumption for the System.

*Western Tidewater Water Authority.* In Fiscal Year 2009, the City entered into a "take or pay" agreement with the WTWA, with a required minimum volume purchase. The agreement expires June 30, 2048. Delivery of water is anticipated to begin in 2014.

## **The Service Area**

The System's current service area covers approximately 334 square miles and includes the City, Virginia Beach and the urban northeastern section of Chesapeake, as well as Naval installations in the City, Virginia Beach

and Portsmouth. This service area is part of what is commonly known as South Hampton Roads. These jurisdictions vary greatly in population and character. Virginia Beach and the City have the first and second largest populations of any cities in the Commonwealth, respectively. Chesapeake, currently the third largest city in the Commonwealth, is experiencing rapid population growth, and has significant land available for residential and commercial development. Ranked by geographical size, Chesapeake is the second largest city in the Commonwealth and Virginia Beach is third. The City is the most densely populated of the three communities and has extensive waterfront development and the region's central business district. See "Appendix D-CERTAIN INFORMATION CONCERNING THE CITY" hereto.

Virginia Beach and Chesapeake have grown to a degree that they are no longer only suburban, though both still serve as residential communities for many working in the City. Virginia Beach has the highest income and property values in the region and also is a resort city with over 12,000 hotel rooms and a significant tourist industry along its beachfront. Both cities promote industrial growth and each has extensive agriculture activity in its southern area.

Table 3 summarizes population trends from 1980 through 2011.

**Table 3**  
**Population**  
**1980 – 2011**

<u>Area</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2011</u>
Norfolk	266,979	261,250	234,463	242,803	243,985
Virginia Beach	262,199	393,689	425,257	437,994	441,246
Chesapeake	114,486	151,982	199,184	222,209	225,898
Hampton Roads MSA	1,160,311	1,430,974	1,533,739	1,648,136	1,661,279
Commonwealth	5,346,279	6,189,197	7,078,515	8,001,024	8,096,604
United States	226,504,825	249,632,692	281,421,906	308,745,538	311,591,917

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Sources: U.S. Bureau of the Census and the Weldon Cooper Center for Public Services, University of Virginia (the "Weldon Cooper Center").

Table 4 provides per capita income comparisons from 2005 through 2009.

**Table 4**  
**City of Norfolk, Virginia**  
**Per Capita Personal Income Comparisons**  
**2005 - 2009**

<u>Year</u>	<u>Norfolk</u>	<u>Hampton Roads MSA</u>	<u>State</u>	<u>U.S.</u>
2005	31,156	34,107	38,966	35,424
2006	33,234	36,319	41,362	37,698
2007	34,834	38,387	43,437	39,461
2008	36,834	39,790	44,676	40,674
2009	36,838	39,518	44,057	39,635

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.

The City has the largest concentration of naval installations in the world. These installations include (i) the Norfolk Naval Base which is the home port for over 100 ships and is one of only two Navy ports on the east coast that can accommodate aircraft carriers; (ii) the Supreme Allied Atlantic Command of the North American Treaty Organization ("NATO"), which is the only NATO facility in the United States; (iii) the headquarters of the Navy's Atlantic Fleet; (iv) the Norfolk Air Station; and (v) several other major Navy commands. The Norfolk Naval Base, located in the City along the Chesapeake Bay, has been a major military installation since World War I. Hampton Roads is the largest center of Coast Guard units in the world with the Atlantic Area Command and Maritime Defense Zone Atlantic in Portsmouth and its Maintenance & Logistic Command Atlantic headquarters in downtown Norfolk.

The Navy's direct economic impact on the region was \$13.5 billion in 2010, comprised of a total annual payroll of \$8.2 billion and the balance consumed on goods and services and procurement contracts. The City expects to continue as a center of activity for the Navy with current total personnel (military and civilian) in excess of 70,000. There were 82,463 active-duty Navy military personnel in Hampton Roads in 2010, of which 63% were assigned to Norfolk.

The Navy's newest local command, the Navy Reserve Forces Command (the "Reserve Command"), relocated to Norfolk from New Orleans in 2009. The Reserve Command is the global headquarters for more than 68,000 reserve sailors and brought approximately 450 military and civilian employees to Hampton Roads. The Reserve Command is responsible for readiness, oversight, manpower management, logistics, mobilization and training of reserve sailors.

This federal presence in the economy tends to smooth out fluctuations in the business cycle and to reduce the severity of recessions. Unemployment in the Hampton Roads area has historically been below the national average, especially during economic downturns. Although the military remains a key component of Hampton Roads' economy, the City has successfully diversified its economic base in recent years.



Annual employment figures and unemployment rates are shown in Table 5 and Table 6, respectively.

**Table 5**  
**Employment**  
**2006 - 2010**

<u>Year</u>	<u>Norfolk</u>	<u>Virginia Beach</u>	<u>Chesapeake</u>
2006	91,762	215,434	110,665
2007	95,949	217,518	111,234
2008	95,156	216,793	111,647
2009	91,563	209,432	109,102
2010	90,948	208,026	108,370

Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, Virginia Employment Commission.

**Table 6**  
**Unemployment Rates**  
**2007 - 2011**

<u>Year</u>	<u>Norfolk</u>	<u>Virginia Beach</u>	<u>Chesapeake</u>	<u>Hampton Roads MSA</u>	<u>Virginia</u>	<u>U.S.</u>
2007	4.1%	3.0%	3.0%	3.2%	3.0%	4.6%
2008	5.3	3.7	3.9	4.2	4.0	5.8
2009	8.7	6.1	6.5	7.0	6.8	9.3
2010	9.2	6.4	6.9	7.4	6.9	9.6
2011	8.8	6.1	6.4	7.0	6.2	8.9

Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, Virginia Employment Commission.

Manufacturing activities in the region include shipbuilding and repair, food processing, paper milling and assorted light assembly operations. The region's harbor is host to a variety of firms which engage in import and export activities. Appalachian coal is the principal export product although significant amounts of grain and general cargo also are exported. The volume of imports is considerably less than exports and is primarily general cargo. Tourism, along with a growing convention business, is an additional source of regional income. General farming is the area's primary agricultural activity.

### **CAPITAL IMPROVEMENT PROGRAM**

In Fiscal Year 2004, the City embarked on a ten-year, \$170 million water system rehabilitation and replacement program to upgrade certain aging infrastructure components of the Water System. The City Council approved Ordinance Number 41,047 on May 20, 2003, which provided a series of three \$0.33 per 1,000 gallon rate increases for Fiscal Years 2004 through 2006, and annual increases of 3.50% each July 1 thereafter, until amended. This series of gradual and predictable finished water retail rate adjustments position the System to support this program.

The City annually prepares a five-year CIP for the System incorporating all known capital costs over that period. Future year projects in the CIP are considered for planning purposes only until funds are provided and may be modified, at any time, by the City Council. The anticipated CIP for Fiscal Years 2012 through 2016 includes projects which are estimated to cost \$103,945,000. These projects are classified in the following categories: (i) facility renovations and upgrades; (ii) retail water distribution system improvements; and (iii) regulatory driven projects. The anticipated timing of project costs associated with the current CIP is shown in Table 8.

**Table 8**  
**Capital Improvement Plan**  
**(Fiscal Year Ending June 30)**

	Approved		Planned			Total
	2012	2013	2014	2015	2016	
37 <sup>th</sup> Street WTP	\$ -	\$ -	\$ -	\$ 5,000,000	\$ -	\$ 5,000,000
Implement Security/Vulnerability	300,000	-	-	-	-	300,000
Rehabilitate Reservoirs System-Wide	-	150,000	-	-	-	150,000
Remove Trees from Little Creek Dam	-	200,000	-	-	-	200,000
Replace Master Meters	100,000	120,000	-	-	-	220,000
Replace Spillway on Lake Taylor Dam	-	75,000	-	-	-	75,000
Replace or Rehabilitation Water Pipelines	18,200,000	18,200,000	18,200,000	18,200,000	18,200,000	91,000,000
Upgrade Moores Bridges WTP	<u>5,500,000</u>	<u>-</u>	<u>1,500,000</u>	<u>-</u>	<u>-</u>	<u>7,000,000</u>
Subtotal Water Utility	<u>\$24,100,000</u>	<u>\$18,745,000</u>	<u>\$19,700,000</u>	<u>\$23,200,000</u>	<u>\$18,200,000</u>	<u>\$103,945,000</u>

Source: City of Norfolk, Virginia, Fiscal Year 2012 Approved Capital Improvement Plan.

The major near-term projects consist of upgrades to the raw water reservoir dams and spillways, raw water transmission pipelines, distribution system piping, phased rehabilitation of the 37<sup>th</sup> Street WTP, and upgrades at the Moores Bridges WTP. These improvements will be followed by subsequent rehabilitation of the raw water pumping stations at the river intakes, and repair and continued replacement of critical portions of the raw water transmission mains and of the distribution system. Improvements to the lake aeration system at the City's Western Branch reservoir are complete and similar improvements at the Lake Prince reservoir will be completed in the near future. These improvements will allow the City to provide continuous operation of the System and meet proposed regulatory requirements.

Norfolk's Water System as it exists can be expected to provide adequate capacity to meet demand for the foreseeable future. Norfolk's treated water currently meets all physical, chemical, radiological and bacteriological water quality standards established by Federal and State regulations. The Department of Utilities actively plans and implements improvements to Norfolk's water treatment facilities to meet current and proposed regulations of the amendments to the 1986 Safe Drinking Water Act. The City has initiated projects to upgrade dated facilities, provide redundancy and for the handling and disposal of residuals from the water treatment plants in an environmentally sound manner. Management believes the CIP expenditure reasonably addresses current and proposed federal and state regulations regarding safe drinking water, dam safety, and environmental protection. While there are some potential contaminants that may be incorporated into future Safe Drinking Water Act amendments, there are no pending regulations that will appear to impact the improvements planned in the five-year CIP.

The City expects to issue Additional Bonds under the Indenture in Fiscal Years 2013 and 2015 to finance portions of the remaining cash flow of project costs in the CIP and construction-work-in-progress to be incurred through Fiscal Year 2016. The City currently intends to pay for all future System capital costs from the Revenues of the System and proceeds of Bonds.

The estimated project costs indicated above are based upon the City's assumptions of future events and existing practices which are subject to revision as actual water utility operating results, regulatory requirements and City policy changes dictate.

#### **Protected Self-Insurance Program**

The City, including the System, are exposed to various risks of losses related to torts; theft and destruction of assets; errors and omissions; injuries to employees; and natural disasters. On July 11, 1978, the City established a protected Self-Insurance Program Fund, pursuant to an ordinance adopted by the City Council, to cover itself from these risks of losses. The program provides for the payment of claims liabilities, property losses and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims and related expense payments made during Fiscal Year 2011 was \$5,874,648.

The City currently reports all these activities as part of the risk management function in the general government section of the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At June 30, 2011, these liabilities were \$31,673,082 of which \$3,721,292 represents the current portion anticipated to be paid within a year. Estimated liabilities for Fiscal Year 2011 were determined by an independent actuary.

Changes in the City's claims liability amount in the Fiscal Years 2007 through 2011 are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Unpaid Claims</u> <u>Beginning Balance</u>	<u>Claims Incurred</u> <u>Estimated</u>	<u>Claims Paid</u>	<u>Ending Balance</u>
2007	\$19,922,358	\$10,659,920	\$ 5,515,618	\$25,066,660
2008	25,066,660	12,313,224	12,305,870	25,059,306
2009	25,059,306	14,134,010	4,686,127	34,507,189
2010	34,507,189	174,757	4,411,759	30,270,187
2011	30,270,187	5,628,197	4,225,302	31,673,082

Source: City of Norfolk, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2011.

## FINANCIAL MANAGEMENT

### Overview

On July 1, 1979, the City Council established the Water Utility Fund (the "Fund") as a distinct enterprise fund of the City to account for all of the financial activity related to providing water services to its customers. The Fund is operated on a self-supporting basis.

Since its inception, regular transfers have been made from the Fund to the City's general fund for payments in lieu of taxes and as a return on the City's investment in the System. Additionally, transfers have been made to pay all debt service on general obligation bonds issued by the City to pay for System improvements. The Fund is reported on an accrual basis of accounting. Included in Appendix B hereto are the audited financial statements for the Fund for the Fiscal Years 2010 and 2011.

### Rate Regulation

The power of the City to fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the System is not subject to the regulatory jurisdiction of the State Corporation Commission of Virginia or any other federal, regional, state or local regulatory body. Subject to existing contractual commitments, the City has sole and exclusive authority over such rates, fees and other charges.

### Water Rates

Retail rate recommendations are developed prior to the City's budgetary process. Retail rates are set by City Council. Formula-driven wholesale rate revisions are not submitted annually for City Council approval, as they were part of the original contract approval. The Department uses a retail rate structure comprised of a uniform rate per thousand gallons, with no quantity discount or lifeline rate, and a uniform service charge per bill. A historical summary of the City's water and wastewater rates is shown in Table 9.

Norfolk's Retail Rate structure consists of a monthly water service charge and a uniform commodity rate. Effective FY 2012, which began July 1, 2011, the monthly Water Account Service Charge is \$1.00 and the Water Rate is \$4.01 per Ccf. Norfolk also charges for fire protection, with rates that vary by the size of connection.

**Table 9**  
**Summary of Historical Water Rates**

<b>Rates Per 100 Cubic Feet</b>		
<u>Fiscal Year</u>	<u>Water</u>	<u>% Change</u>
2003	\$ 2.51	0.0%
2004	2.76	10.0
2005	3.01	9.1
2006	3.26	8.3
2007	3.37	3.4
2008	3.49	3.6
2009	3.61	3.4
2010	3.74	3.6
2011	3.87	3.5
2012	4.01	<u>3.6</u>
10-Year Average:		<u>4.8%</u>

Source: Department of Utilities.

The System's retail customers' average annual cost for Fiscal Years 2007 through 2011 are shown in Table 10 for ease of comparison with wholesale customers' average annual costs during the same period shown in Tables 11, 12 and 13.

**Table 10**  
**Retail Customers' Average Annual Costs**  
**Norfolk Retail**  
**2007 - 2011**

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Volume (Mgal<sup>1</sup>)</u>	<u>Average Cost (\$/Mgal<sup>1</sup>)</u>
2007	\$32,117,000	6,886,000	\$4.66
2008	34,641,000	7,061,000	4.91
2009	32,847,000	6,627,000	4.96
2010	33,401,000	6,432,000	5.19
2011	34,472,000	6,362,000	5.42

<sup>(1)</sup> "Mgal" means 1,000 gallons

Source: Department of Utilities.

The rates from the wholesale contract with Virginia Beach are formula driven based on projected operating and capital cashflow expenditures for two years. Virginia Beach's bills reflect a four part rate structure. Two parts of the rate structure are fixed monthly charges which recover proportional share of costs for system capacity designed to serve, and used by, Virginia Beach. One part of the rate structure is a fixed charge related to Virginia Beach's reservation of Norfolk's surplus water, as appropriate. One part of the rate structure is a uniform rate which recovers Virginia Beach's proportional share of variable operation and maintenance costs based on current use. Chesapeake's single uniform rate is based on an equivalent retail rate that recovers costs associated with the City's retail service charge and uniform rate.

**Table 11**  
**Wholesale Customers' Average Annual Costs**  
**Virginia Beach**  
**2007 - 2011**

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Volume (Mgal)</u>	<u>Average Cost (\$/Mgal)</u>
2007	\$25,194,000	13,089,000	\$1.92
2008	23,061,000	12,999,800	1.77
2009	25,257,000	12,344,100	2.05
2010	26,742,000	12,189,000	2.19
2011	28,703,000	12,307,800	2.33

Source: Department of Utilities.

**Table 12**  
**Wholesale Customers' Average Annual Costs**  
**U.S. Navy, including Norfolk and Virginia Beach Facilities**  
**2007 - 2011**

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Volume (Mgal)</u>	<u>Average Cost (\$/Mgal)</u>
2007	\$8,548,000	1,724,000	\$4.96
2008	8,319,000	1,624,000	5.12
2009	8,112,000	1,536,000	5.28
2010	8,108,000	1,479,000	5.48
2011	8,837,000	1,562,000	5.66

Source: Department of Utilities.

**Table 13**  
**Wholesale Customers' Average Annual Costs**  
**Chesapeake**  
**2007 - 2011**

<u>Fiscal Year</u>	<u>Revenue</u>	<u>Volume (Mgal)</u>	<u>Average Cost (\$/Mgal)</u>
2007	\$3,987,000	865,000	\$4.61
2008	5,461,000	1,149,000	4.75
2009	5,860,000	1,182,000	4.96
2010	6,048,000	1,180,000	5.13
2011	4,299,000	803,000	5.35

Source: Department of Utilities.

As shown in Table 14, the System's charges compare favorably with other providers of water in the region.

**Table 14**  
**Select Water Charges in the Region**  
**(as of July 1, 2011)**

<u>City</u>	<u>Monthly Water Charges for Median Household<sup>(1)(2)</sup></u>
Chesapeake	\$ 31.04
Norfolk	24.06
Newport News	22.38
Portsmouth	25.16
Virginia Beach	24.21

<sup>(1)</sup> Based on estimated average consumption of 6 CCF per month.

<sup>(2)</sup> Excludes utility taxes levied by the City.

Source: Department of Utilities.

#### **Billing, Collections and Enforcement Procedures**

The Department bills for water monthly using a billing and information system that combines account, work order, meter and customer service management. Effective May 1994, the Department implemented a joint billing program with HRSD, a political subdivision of the Commonwealth that provides wastewater treatment to the Hampton Roads region. This program has resulted in annual billing and collection efficiencies to the City and HRSD of approximately 99.5%.

Meters are read on a monthly basis. Billing data is transmitted to the Hampton Roads Utility Billing System, which is managed by HRSD, for the inclusion with HRSD's billing of wastewater, resulting in bills mailed within two days from when meters are read. The Department uses estimated billing only in extraordinary circumstances.

The Department has a collection staff that actively pursues the collection of past due bills in coordination with the City's Law Department and HRSD. Extensive efforts are directed towards collection of delinquent accounts. Water customers are subject to having their water service discontinued if payments are delinquent by more than 45 days. Water service is restored when full payment is received or an acceptable payment plan is arranged. Delinquent bills are pursued with the use of property liens, payment arrangements and through the court system. Accounts are written off after they have been inactive for three years and collection efforts have not been successful. The Department participates in the State Debt Set-Off Program, which provides a way for the Department to have delinquent account balances, which contain the customer's social security number, withheld from the customer's Virginia State Income Tax refund or Virginia Lottery winnings. Write-offs must be approved by City Council. Historical write-offs of bad debt for Fiscal Years 2007 through 2011 are shown in Table 15.

**Table 15**  
**Water Utility Fund**  
**Bad Debt Write-off**  
**(2007 - 2011)**

<u>Fiscal Year</u>	<u>Years Written Off</u>	<u>Amount</u>	<u>Corresponding Billed Water Revenue<sup>(1)</sup></u>	<u>% of Net Charges for Services</u>
2007	None	\$ 0	\$ 0	0.00%
2008	None	0	0	0.00
2009	2003	243,498	63,785,185	0.38
2010	2004, 2005 and 2006	702,517	196,184,906	0.35
2011	2007	254,661	75,691,666	0.33

<sup>(1)</sup> Corresponding Billed Water Revenue relates to revenue billed for the years in which the accounts receivable originate.

Source: Department of Utilities.

#### **Reserves Policy**

The City believes for the Water System to operate effectively as a utility enterprise, sound financing dictates that it is both prudent and appropriate to provide an Operating Fund reserve to accommodate normal fluctuations in expenditures for utility operations and to provide a Repair and Replacement Reserve to permit immediate funding for unforeseeable emergency capital needs. These reserves are in addition to the normal flow of working capital funds. This practice is consistent with the requirements of the Indenture.

The Water Utility Fund is meeting or exceeding all requirements for various reserve funds.

- Operating Fund, to maintain a balance of one-sixth of each year's budgeted operating expenses excluding debt service, capitalized operation and maintenance expense, and payments to the General Fund. This equates to payment of O&M expenses as they are incurred, and maintaining approximately sixty days of budgeted O&M expenses as a working capital reserve. The balance of the Operating Fund at June 30, 2011, was \$7,000,000.
- Repair and Replacement Reserve Fund, such amounts as may be determined by the City to establish, sustain or increase the reserve level from the initial \$1,000,000 balance. The balance of the Repair and Replacement Reserve Fund at June 30, 2011, was \$2,000,000.
- Rate Stabilization Fund, such amounts as may be necessary to accumulate the Rate Stabilization Requirement for use in mitigating impacts of projected future rate increases, and anticipated true-ups of wholesale customer revenues. The Rate Stabilization Requirement is \$0; however, the balance of the Rate Stabilization Fund at June 30, 2011, was \$2,000,000.
- General Reserve Fund, to use first to cure any deficit which may exist in the Operating Fund, the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Repair and Replacement Fund and the Rate Stabilization Fund, and then for any lawful purpose the General Reserve Fund reflects quick available funds (current cash and short term investments). The balance of the General Reserve Fund at June 30, 2011, was in excess of \$37 million.

## Budget Process

The Department prepares an annual budget for the Fund in conformity with the City's requirements and procedures for the ensuing Fiscal Year. An interactive process is used during this review, involving personnel from the Department of Finance and the Office of Budget and Grants Management.

The Fund is accounted for on a full accrual basis which recognizes and records expenses and business services when goods and services are received and revenues when earned. The budget is prepared on a cash basis and non-cash items such as depreciation are not included. The Fund is a self-supporting enterprise fund with no subsidy from the City's General Fund. All debt service on general obligation bonds issued to fund System improvements, a payment in lieu of taxes, a return on investment and indirect overhead are budgeted to be paid from the annual revenues of the Water Utility Fund. The Fund's annual budgets for Fiscal Year 2011 and Fiscal Year 2012 are shown in Table 16.

**Table 16**  
**Water Utility Fund**  
**Annual Budget**  
**(Fiscal Year Ending June 30)**  
**(Cash Basis)**

<b>Revenue</b>	<b><u>2011</u></b>	<b><u>2012</u></b>
Total Water Revenue	\$75,419,185	\$75,573,500
Interest Income	2,426,086	450,000
Miscellaneous	<u>1,256,729</u>	<u>3,281,500</u>
 Total Revenue	 <u>\$79,102,000</u>	 <u>\$79,305,000</u>
 <b>Appropriations</b>		
Personnel Services	16,927,350	17,473,328
Materials, Supplies & Repairs	11,810,981	11,261,217
General Operations and Fixed Charges	10,402,282	9,609,158
Equipment	326,210	289,210
Debt Services & Expenses	30,896,560	31,710,325
All-Purpose Appropriations	<u>8,738,617</u>	<u>8,961,762</u>
 Total Appropriations	 <u>\$79,102,000</u>	 <u>\$79,305,000</u>

Source: City of Norfolk. Approved Operating Budgets, Fiscal Years 2011 and 2012.



## Results of Operations

Statements of Revenues, Expenses and Changes in Fund Net Assets for the Fund have been compiled from the City's Comprehensive Annual Financial Report ("CAFR") for Fiscal Years 2007 through 2011 and appear in Table 17. The statements have been organized in such a manner as to facilitate year to year comparisons. In the opinion of the City, there has been no adverse change in the financial condition of the System since the date of the last audit (June 30, 2011).

**Table 17**  
**Water Utility Fund**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**(Accrual Basis)**  
**(Fiscal Year Ending June 30)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenues					
Charges for Services	\$69,815,932	\$74,239,988	\$74,453,906	\$78,982,990	\$80,573,611
Miscellaneous	<u>2,941,067</u>	<u>2,915,980</u>	<u>2,666,962</u>	<u>3,161,097</u>	<u>2,936,138</u>
Total Operating Revenues	<u>72,756,999</u>	<u>77,155,968</u>	<u>77,120,868</u>	<u>82,144,087</u>	<u>83,509,749</u>
Operating Expenses					
Personal Services	12,737,845	13,120,146	13,972,816	14,284,882	14,703,327
Plant Operations	5,780,847	6,625,810	6,844,241	5,896,843	6,493,701
Chemicals	3,318,311	3,446,908	4,963,652	3,761,744	3,524,658
Provision of Bad Debts	52,634	710,185	419,459	301,294	429,970
Depreciation	10,796,178	11,096,511	11,335,890	11,494,781	11,915,059
Retirement and OPEB Contribution	1,582,668	1,496,116	2,240,845	2,535,167	3,139,382
Administrative Expenses	2,064,339	1,809,616	1,710,050	1,563,029	2,263,435
Other	<u>10,117,700</u>	<u>12,350,421</u>	<u>10,656,564</u>	<u>8,935,390</u>	<u>9,224,888</u>
Total Operating Expenses	<u>46,450,522</u>	<u>50,656</u>	<u>52,143,517</u>	<u>48,773,130</u>	<u>51,694,420</u>
Operating Income	<u>26,306,477</u>	<u>26,500,256</u>	<u>24,977,351</u>	<u>33,370,957</u>	<u>31,815,329</u>
Nonoperating Revenue (expenses):					
Interest Income	1,704,565	1,574,056	899,684	325,933	227,695
Intergovernmental Revenues	333,350	-	-	-	85,261
Interest Expense and Fiscal Charges	(14,060,054)	(14,199,647)	(14,826,222)	(15,543,012)	(16,157,923)
Gain (Loss) on Sale or Disposal of Fixed Assets	(6,032)	(21,484)	(20,392)	2,842,616	(157,224)
Unrealized Gain/(Loss) on Investments	-	-	-	-	-
Total Nonoperating Revenue (Expenses)	<u>(12,028,171)</u>	<u>(12,647,075)</u>	<u>(13,946,930)</u>	<u>(12,374,463)</u>	<u>(16,002,191)</u>
Net Income (Loss) before Contributions and Transfers	14,278,306	13,853,180	11,030,421	20,996,494	15,813,138
Capital Contribution	594,926	175,778	503,658	366,363	129,652
Transfer In	-	-	-	-	-
Transfer Out	<u>(8,921,465)</u>	<u>(8,500,000)</u>	<u>(8,500,000)</u>	<u>(11,360,000)</u>	<u>(8,500,000)</u>
Change in Net Assets	5,951,767	5,528,958	3,034,079	10,002,857	7,442,790
Total Net Assets – Beginning	<u>171,002,195</u>	<u>176,953,962</u>	<u>182,482,920</u>	<u>185,516,999</u>	<u>195,519,856</u>
Total Net Assets – Ending	<u>\$176,953,962</u>	<u>\$182,482,920</u>	<u>\$185,516,999</u>	<u>\$195,519,856</u>	<u>\$202,962,646</u>

Source: City of Norfolk, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2007 - 2011.

## Management Discussion of Operating Results

The following discussion is based on operating budgets and historical operating results as shown in Tables 16 and 17, respectively. The revenues of the Fund have remained fairly stable over the past three years and total expenses of operating the System have remained fairly level over the last several years.

The financial data in this Official Statement is excerpted from the published audited Comprehensive Annual Financial Report (the "CAFR") for fiscal year ended June 30, 2011. The following is a summary of year-to-date Fiscal Year 2012 Water Fund financial data that is preliminary, unaudited, subject to change due to internal adjustments and pending the results of the year end independent audit.

Through eight months of Fiscal Year 2012, revenues have exceeded the budget projections and actual expenditures have been below budget. Year-to-date Revenues are \$53.9 million or approximately 2% more than the year-to-date budget.

For Fiscal Year 2012 budgeting purposes, the Water Utility Fund conservatively projected water consumption to be flat for both retail and wholesale accounts. Projected revenue growth was attributable to three (3) factors:

- The annual adjustments in long-term wholesale contracts;
- The previously authorized City Council ordinance that permits an automatic rate increase of 3.5% annually; and
- The estimated CPI growth rate of 3% for raw water sales.

Expenditures are \$48.3 million or approximately 10% less than projected. The reductions in the operating budget have been achieved through savings in the debt service budget, salary savings from vacant positions and savings across several Operations and Maintenance categories including chemicals and electricity costs, repair costs, wastes disposal cost, other contractual and professional services.

As with revenue, the Water Utility Fund conservatively projects its Operation and Maintenance (O&M) expenses. These costs are subsequently trended into the future using the following projected inflation estimates:

Description	Inflation
Personnel Services	3.00%
Health & Benefits	10.00%
Plant Operations	5.00%
Administrative	5.00%
Other*	5.00%

\*Excludes ROI and PILOT

The Fiscal Year 2012 budgeted revenue bond debt service coverage level was 1.67x. After the refunding, the City projects the Fiscal Year 2012 debt service coverage will exceed 2.0x.

Combining the higher than budgeted revenues and lower than budgeted expenditures, the Water Fund preliminarily expects to end Fiscal Year 2012 with a positive variance.

### OPERATING RESULTS AND DEBT SERVICE COVERAGE

Table 18 includes a summary of the Water Fund's debt service coverage for Fiscal Years 2002 through 2011.

**Table 18**  
**Water Utility Fund**  
**Debt Service Coverage**  
**(Accrual Basis)**  
**(Fiscal Years Ending June 30)**

Fiscal Year	Revenues Available for Debt Service <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Revenues	Revenue Bond Debt Service			Revenue Bond Coverage
				Principal	Interest	Total	
2002	\$63,681,665	\$25,797,266	\$37,884,399	\$4,890,000	\$14,090,180	\$18,980,180	2.00
2003	67,760,029	27,967,179	39,792,850	5,700,000	14,600,283	20,300,283	1.96
2004	64,366,942	33,740,297	30,626,645	5,955,000	14,336,043	20,291,043	1.51
2005	69,183,154	34,643,668	34,539,486	6,250,000	14,041,059	20,291,059	1.70
2006	78,788,158	34,144,763	44,643,395	6,580,000	14,827,960	21,407,960	2.09
2007	76,013,563	32,427,377	43,586,186	7,310,000	14,379,821	21,689,821	2.01
2008	78,730,024	37,026,528	41,703,496	7,665,000	14,022,200	21,687,200	1.92
2009	78,020,552	38,182,373	39,838,179	8,050,000	16,411,343	24,461,343	1.63
2010	82,470,020	34,567,741	47,902,279	9,420,000	15,929,680	25,349,680	1.89
2011	83,737,444	37,068,753	46,668,691	9,875,000	16,527,844	26,402,844	1.77

<sup>(1)</sup> Includes operating revenue plus interest income, net of interest capitalized.

<sup>(2)</sup> Includes operating expenses less depreciation, amortization and PILOT.

Source: Department of Utilities.

## **LEGAL MATTERS**

Certain legal matters relating to the authorization and validity of the 2012 Bonds are subject to the approving opinion of McGuireWoods LLP, Richmond, Virginia, Bond Counsel, which will be in substantially the form of Appendix C to this Official Statement. Such opinion will be furnished at the expense of the City upon delivery of the 2012 Bonds. Since Bond Counsel has not prepared this Official Statement and has not verified its accuracy, completeness or fairness, such opinion will be limited to matters relating to the authorization and validity of the 2012 Bonds and to the exemption of interest thereon under present federal and Virginia income tax laws. Certain legal matters will be passed on for the City by the City Attorney and for the Underwriters by Christian & Barton, L.L.P., Richmond, Virginia.

## **TAX MATTERS**

### **Opinion of Bond Counsel**

Bond Counsel's opinion will state that, under current law and assuming the compliance with the Covenants (as defined below) by the City and the accuracy of certain representations and certifications, interest on the 2012 Bonds (including any accrued "original issue discount" properly allocable to the owners of the 2012 Bonds), is (a) excludable from the gross income of the owners of the 2012 Bonds for purposes of federal income taxation under Section 103 of the Code, and (b) not a specific item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the 2012 Bonds must be included in the adjusted current earnings for purposes of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes) under Section 56 of the Code. See Appendix C hereto for the form of the opinion of Bond Counsel.

Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the 2012 Bonds.

Bond Counsel's opinion speaks as of its date, is based on current legal authority and precedent, covers certain matters not directly addressed by such authority and precedent, and represents Bond Counsel's judgment as to the proper treatment of interest on the 2012 Bonds for federal income tax purposes. Bond Counsel's opinion does not contain or provide any opinion or assurance regarding the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service (the "IRS"). The City has covenanted, however, to comply with the requirements of the Code.

### **Reliance and Assumptions; Effect of Certain Changes**

In delivering its opinion regarding the 2012 Bonds, Bond Counsel is relying upon and assuming the accuracy of representations and certifications of representatives of the City, the underwriters of the 2012 Bonds and other public officials as to facts material to the opinion, which Bond Counsel has not independently verified.

In addition, Bond Counsel is assuming continuing compliance with the Covenants by the City. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2012 Bonds in order for interest on the 2012 Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the 2012 Bonds and the use of the property financed or refinanced by the 2012 Bonds, limitations on the source of the payment of and the security for the 2012 Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the 2012 Bonds to the United States Department of the Treasury ("Treasury"). The tax certificate for the 2012 Bonds (the "Tax Certificate") contains covenants (the "Covenants") under which the City has agreed to comply with such requirements. Failure by the City to comply with the Covenants could cause interest on the 2012 Bonds to become includable in gross income for federal income tax purposes retroactively to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2012 Bonds from becoming includable in gross income for federal income tax purposes.

Bond Counsel has no responsibility to monitor compliance with the Covenants after the date of issue of the 2012 Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document. Bond Counsel expresses no opinion concerning any effect on excludability of interest on the 2012 Bonds from gross income for federal income tax purposes of any such subsequent change or action that may be made, taken or omitted upon the advice or approval of counsel other than Bond Counsel.

### **Certain Collateral Federal Tax Consequences**

The following is a brief discussion of certain collateral federal income tax matters with respect to the 2012 Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner thereof. Prospective purchasers of such 2012 Bonds, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning or disposing of the 2012 Bonds.

Prospective purchasers of the 2012 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers including, without limitation, financial institutions, certain insurance companies, certain corporations (including S corporations and foreign corporations), certain foreign corporations subject to the "branch profits tax," individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers attempting to qualify for the earned income tax credit.

In addition, prospective purchasers should be aware that the interest paid on, and the proceeds of the sale of, tax-exempt obligations, including the 2012 Bonds, are in many cases required to be reported to the IRS in a manner similar to interest paid on taxable obligations. Additionally, backup withholding may apply to any 2012 Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any 2012 Bond owner who is notified by the IRS of a failure to report all interest and dividends required to be shown on federal income tax returns. The reporting and withholding requirements do not in and of themselves affect the excludability of such interest from gross income for federal tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

### **Original Issue Discount**

The "original issue discount" ("OID") on any 2012 Bond is the excess of such bond's stated redemption price at maturity (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of such bond. The "issue price" of a bond is the initial offering price to the public at which price a substantial amount of such bonds of the same maturity was sold. The "public" does not include bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The issue price for each maturity of the 2012 Bonds is expected to be the initial public offering price set forth on the inside front cover page of this Official Statement, but is subject to change based on actual sales. OID on the 2012 Bonds with OID (the "OID Bonds") represents interest that is excludable from gross income for purposes of federal and Virginia income taxation. However, the portion of the OID that is deemed to have accrued to the owner of an OID Bond in each year may be included in determining the alternative minimum tax with respect to the 2012 Bonds and the distribution requirements of certain investment companies and may result in some of the collateral federal income tax consequences mentioned in the preceding subsection. Therefore, owners of OID Bonds should be aware that the accrual of OID in each year may result in alternative minimum tax liability, additional distribution requirements or other collateral federal and Virginia income tax consequences although the owner may not have received cash in such year.

Interest in the form of OID is treated under Section 1288 of the Code as accruing under a constant yield method that takes into account compounding on a semiannual or more frequent basis. If an OID Bond is sold or otherwise disposed of between semiannual compounding dates, then the OID which would have accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

In the case of an original owner of an OID Bond, the amount of OID that is treated as having accrued on such OID Bond is added to the owner's cost basis in determining, for federal income tax purposes, gain or loss upon its disposition (including its sale, redemption or payment at maturity). The amounts received upon such disposition that are attributable to accrued OID will be excluded from the gross income of the recipients for federal income tax purposes. The accrual of OID and its effect on the redemption, sale or other disposition of OID Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

Prospective purchasers of OID Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale or redemption of such OID Bonds and with respect to state and local tax consequences of owning OID Bonds.

### **Bond Premium**

In general, if an owner acquires a bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Prospective purchasers of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

### **Effects of Future Enforcement, Regulatory and Legislative Actions**

The IRS has established a program to audit tax-exempt obligations to determine whether the interest thereon is includable in gross income for federal income tax purposes. If the IRS does audit the 2012 Bonds, the IRS will, under its current procedures, treat the City as the taxpayer. As such, the beneficial owners of the 2012 Bonds will have only limited rights, if any, to participate in the audit or any administrative or judicial review or appeal thereof. Any action of the IRS, including but not limited to the selection of the 2012 Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the marketability or market value of the 2012 Bonds.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress and various State legislatures. Such legislation may effect changes in federal or State income tax rates and the application of federal or State income tax laws (including the substitution of another type of tax), or may repeal or reduce the benefit of the excludability of interest on the tax-exempt obligations from gross income for federal or State income tax purposes.

The U.S. Department of the Treasury and the IRS are continuously drafting regulations to interpret and apply the provisions of the Code and court proceedings may be filed the outcome of which could modify the federal or State tax treatment of tax-exempt obligations. There can be no assurance that legislation proposed or enacted after the date of issue of the 2012 Bonds, regulatory interpretation of the Code or actions by a court involving either the 2012 Bonds or other tax-exempt obligations will not have an adverse effect on the 2012 Bonds' federal or State tax status, marketability or market price or on the economic value of the tax-exempt status of the interest on the 2012 Bonds.

Prospective purchasers of the 2012 Bonds should consult their own tax advisors regarding the potential consequences of any such pending or proposed federal or State tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

## **Virginia Tax Matters**

Bond Counsel's opinion also will state that, under current law, interest on the 2012 Bonds is excludable from the gross income of the owners thereof for purposes of income taxation by the Commonwealth. Bond Counsel will express no opinion regarding (i) other Virginia tax consequences arising with respect to the 2012 Bonds or (ii) any consequences arising with respect to the 2012 Bonds under the tax laws of any state or local jurisdiction other than Virginia. Prospective purchasers of the 2012 Bonds should consult their own tax advisors regarding the tax status of interest on the 2012 Bonds in a particular state or local jurisdiction other than Virginia.

## **PENDING LITIGATION**

The City is involved from time to time in various legal actions some of which affect the System. In the opinion of the City Attorney, there is no litigation now pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the 2012 Bonds, or in any way contesting or affecting the validity of the 2012 Bonds, any proceeding of the City taken with respect to their issuance or sale, or the powers of the City with respect to the operation of the System including the City's ability to collect and apply Revenues of the System as set forth in the Indenture.

According to the City there is no litigation pending or, to its knowledge and belief, threatened which would have a material adverse effect on the operations or financial condition of the System.

## **BOND RATINGS**

The 2012 Bonds have been rated Aa2 by Moody's Investors Service, Inc. ("Moody's"), AA+ by Standard & Poor's Ratings Services ("Standard & Poor's") a division of The McGraw-Hill Companies, Inc. and AA+ by Fitch Ratings ("Fitch").

Explanations of the significance of such ratings may be obtained from Moody's, Standard & Poor's and Fitch. The ratings are not a recommendation to buy, sell or hold the 2012 Bonds and should be evaluated independently.

There is no assurance that such ratings will not be withdrawn or revised downward by Moody's, Standard & Poor's or Fitch. Such action may have an adverse effect on the market price of the 2012 Bonds. The City has not undertaken any responsibility after the issuance of the 2012 Bonds to assure maintenance of the ratings or to oppose any such revision or withdrawal.

## **FINANCIAL STATEMENTS**

The audited Fund financial statements with accompanying notes for the Fiscal Years 2010 and 2011 are published, along with the accompanying report of the City's Independent Accountants, in Appendix B to this Official Statement. The City's Independent Accountants have not reviewed this Official Statement or any other matters related to the issuance of the 2012 Bonds.

## **FINANCIAL ADVISOR**

The City has retained Public Financial Management, Inc., Arlington, Virginia ("PFM"), as financial advisor in connection with the issuance and sale of the 2012 Bonds. Although PFM has assisted in the preparation of this Official Statement, PFM is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement. PFM is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

The arithmetical accuracy of certain computations included in the scheduled provided by PFM on behalf of the City relating to forecasted payments of principal and interest to redeem the Refunded Bonds was examined by Grant Thornton LLP, Minneapolis, Minnesota (the "Verification Agent"). Such computations were based solely upon assumptions and information supplied by PFM on behalf of the City. The Verification Agent has restricted its

procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## **RELATIONSHIP OF PARTIES**

Christian & Barton, L.L.P., counsel to the Underwriters, also serves as counsel to the City in various matters, including various matters related to the City's water and sewer systems.

## **UNDERWRITING**

The 2012 Bonds are being purchased by Morgan Stanley & Co. LLC, Siebert Brandford Shank & Co., L.L.C., Merrill Lynch, Pierce, Fenner & Smith Incorporated, BB&T Capital Markets, a division of Scott & Stringfellow, LLC, and M&T Securities, Inc. (collectively, the "Underwriters"). The purchase contract for the 2012 Bonds (the "Bond Purchase Agreement") sets forth the obligation of the Underwriters to purchase the 2012 Bonds at a price equal to \$207,948,876.69 (which reflects the par amount of the 2012 Bonds plus net original issue premium of \$31,581,181.25 and less an underwriting discount of \$557,304.56) and is subject to certain terms and conditions, including the approval of certain legal matters by counsel. The Bond Purchase Agreement provides that the Underwriters will purchase all of the 2012 Bonds if any are purchased. The Underwriters may offer and sell the 2012 Bonds to certain dealers (including dealers depositing the 2012 Bonds into investment trusts) and others at prices different from the public offering prices stated on the cover page of this Official Statement. The public offering prices may be changed from time to time at the discretion of the Underwriters.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2012 Bonds.

## **CONTINUING DISCLOSURE**

The offering of the 2012 Bonds is subject to the continuing disclosure requirements of the Rule. Pursuant to the Rule, the City has undertaken for the benefit of the Bondholders to make public certain annual financial information and notice of certain material events by furnishing such information to the Municipal Securities Rulemaking Board.

A failure by the City to comply with its continuing disclosure undertaking will not constitute an Event of Default under the Indenture (although the Bondholders will have any available remedy at law or in equity to enforce the undertaking). However, a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2012 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the 2012 Bonds and their market price.

The City failed to comply with certain provisions of the Rule when it failed to file in a timely manner with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") and the respective nationally recognized municipal securities information repositories certain operating data for the Fiscal Years 2006 through 2010, which previously was included in the statistical section of its Comprehensive Annual Financial Report ("CAFR") for such years, but was inadvertently omitted. Subsequently, the City filed such information, and the City has established procedures to reduce the likelihood of future reoccurrences.

See "Appendix F-FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto for a more detailed description of the City's continuing disclosure undertakings.



## MISCELLANEOUS

This Official Statement and any advertisement of the 2012 Bonds are not to be construed as a contract with the purchasers of the 2012 Bonds. Any statement made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly identified, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

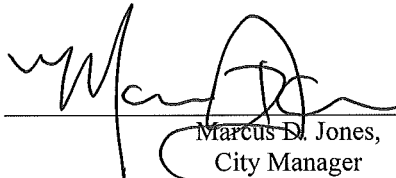
The references in this Official Statement to and summaries of federal, Commonwealth and City laws, including but not limited to the Constitution of the Commonwealth, the Code of Virginia, the City Charter and documents, agreements and court decisions are summaries of certain of their provisions. Such summaries do not purport to be complete and are qualified in their entirety by reference to such acts, laws, documents, agreements or decisions, copies of which are available for inspection during normal business hours at the office of the City Attorney.

Any question concerning the content of this Official Statement should be directed to the Acting Director of Finance, 810 Union Street, 600 City Hall Building, Suite 600, Norfolk, Virginia 23510, (757) 664-4346.


The City Council has by ordinance authorized the execution and delivery of this Official Statement on behalf of the City by the City Manager and the Acting Director of Finance. The distribution of this Official Statement has been duly authorized by the City which has decreed this Official Statement final within the meaning of the Rule, except for the omission of certain pricing and other information permitted to be omitted by the Rule.

The distribution of this Official Statement has been duly authorized by the City Council.

### CITY OF NORFOLK, VIRGINIA



Marcus D. Jones,  
City Manager



Shenette C. Felton,  
Acting Director of Finance

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**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**

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**DEFINITIONS AND SUMMARY  
OF CERTAIN PROVISIONS OF THE INDENTURE**

**Definitions of Certain Terms**

"Accreted Value" will have the meaning set forth in the Supplemental Indenture authorizing any Capital Appreciation Bonds.

"Act" means the Public Finance Act of 1991, Chapter 26 of Title 15.2, of the Code of Virginia of 1950, as amended.

"Additional Bonds" mean any Bonds other than the Prior Series or the 2012 Bonds.

"Annual Budget" means the budget referred to in the Master Indenture.

"Authorized City Representative" means any person or persons designated to act on behalf of the City by a certificate signed by its Director of Finance and filed with the Trustee.

"Average Interest Rate" means the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that with respect to new Variable Rate Indebtedness the interest rate for such Variable Rate Indebtedness for the initial interest rate period will be the initial rate at which such Variable Rate Indebtedness is issued and thereafter will be calculated as set forth above.

"Balloon Indebtedness" means any Indebtedness, including any Bond Anticipation Notes, 25% or more of the original principal amount of which matures or is subject to mandatory redemption during any consecutive twelve-month period, if the maturing principal amount is not required to be amortized below such percentage by mandatory redemption or prepayment before the twelve-month period.

"Bank" means (i) a bank or trust company that has a combined capital, surplus and undivided profits of not less than \$50,000,000 or (ii) a subsidiary trust company with combined capital, surplus and undivided profits, together with that of its parent bank or bank holding company, as the case may be, of not less than \$50,000,000; provided, however, that any such bank or trust company will have (or have a parent company which has) a long-term debt rating within one of the three highest categories by at least one of the Rating Agencies.

"Bond" or "Bonds" mean any bond or all of the bonds, as the case may be, issued pursuant to the Master Indenture and any Supplemental Indenture, but not including any Parity Indebtedness or Subordinate Debt or any bonds or other evidence of indebtedness of the City issued from time to time under any other indenture, trust agreement, ordinance, resolution or similar instrument.

"Bond Anticipation Notes" mean notes or other obligations issued in anticipation of the issuance of Bonds.

"Bond Counsel" means an attorney or a firm of attorneys (designated by the City) of nationally recognized standing in matters pertaining to the validity of and the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America.

"Bond Debt Service" means for any period of twelve consecutive months the Debt Service Requirement with respect to any Bonds then Outstanding.

"Bond Fund" means the bond fund established under the Master Indenture.

"Business Day" means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in the Commonwealth, or the city in which the principal corporate trust office of the Trustee or the Paying Agent is located, are authorized by law to close, (iii) a day on which the New York Stock Exchange is closed, or (iv) such other days as may be specified in a Supplemental Indenture.

"Capital Appreciation Bonds" mean the Bonds in any Series designated as Capital Appreciation Bonds in the Supplemental Indenture authorizing the issuance of the Series.

"Capitalized Interest Account" means the Capitalized Interest Account of the Bond Fund.

"City" means the City of Norfolk, Virginia, a political subdivision of the Commonwealth.

"City Obligations" means for any Fiscal Year the amount budgeted to be paid to the general fund of the City for PILOT and ROI.

"Code" means the Internal Revenue Code of 1986, as amended, including applicable regulations and revenue rulings, and any successor codification.

"Commonwealth" means the Commonwealth of Virginia.

"Compounding Date" for Bonds of any Series will have the meaning set forth in the Supplemental Indenture authorizing the issuance of such Series.

"Consulting Engineer" means an independent engineering firm or individual engineer licensed to do business in Virginia and experienced with matters related to utilities similar to the System retained by the City as Consulting Engineer.

"Contracted Services" mean services rendered or facilities provided to the City in respect of the System or for the performance for or on behalf of the City of functions similar to those performed by the System, from a specific project, projects or systems, pursuant to a Service Contract, whether a financing lease, a service agreement or another arrangement.

"Cost" or "Cost of the Project" means all costs incurred by the City in connection with the acquisition, expansion, construction, improvement, renovation and equipping of the System or any Project comprising a portion of the System, as permitted by the Act, including, without limitation, the payment of costs of issuance of Bonds and the funding of such funds and accounts as provided in the Master Indenture or any Supplemental Indenture, the cost of all lands, properties, rights, easements, franchises and permits acquired, the cost of all machinery and equipment, amounts paid to purchase capacity or services from other entities which are required to be capitalized or which the City makes an election to capitalize, financing charges, initial credit enhancement charges, interest before and during construction of any Project and for up to one year after completion of construction of any Project, any amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code, any deposits to any bond interest and principal reserve accounts, the cost of engineering and legal services, plans, specifications, surveys, estimates of costs and of revenues, other expenses necessary or incident to determining the feasibility or practicability of any acquisition, improvement or construction, administrative expenses, working capital, the retirement of notes or other interim financing the proceeds of which were used to pay Costs, and such other expenses as may be necessary or incidental to the improvement of the System and placing it in operation.

"Cost of Contracted Services" means the payments to be made by the City for Contracted Services which may be allocated by the City between: (i) a Debt Service Component and (ii) an Operating Component. No designation or characterization of payments under a Service Contract will affect the City's right to make some other allocation of the payments for the purpose of the Master Indenture.

"Counsel" means such attorney or firm of attorneys selected or approved by the City who are duly admitted to practice law before the highest court of any state of the United States of America, none of whom is a full-time employee, member, director or officer of the City or a full-time employee or officer of the Trustee.

"Credit Facility" means a line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established to provide credit or liquidity support for Bonds or Parity Indebtedness.

"Dealer" means a financial institution or government bond dealer which (i) is a member of the Securities Investors Protection Corporation and (ii) has a long-term debt rating in one of the three highest rating categories by at least one of the Rating Agencies or has a dealer or parent holding company that has a long-term debt rating within one of the three highest rating categories by at least one of the Rating Agencies.

"Debt Service Component" means the portion of the Cost of Contracted Services that an Authorized City Representative determines, in a certificate delivered to the Trustee, to be for the purpose of paying a fixed charge or the principal of or interest on the obligations, directly or indirectly associated with rendering the Contracted Services, of the person providing the Contracted Services.

"Debt Service Requirement" means, for any period of twelve consecutive months for which such determination is made, the aggregate of the amounts required to be deposited, as the case may be in the Bond Fund, the Parity Debt Service Fund and the Subordinate Debt Service Fund during this period with respect to any Bonds, Parity Indebtedness or Subordinate Indebtedness; provided, however, that:

(a) with respect to any Option Obligations, such Option Obligations will be assumed to mature on their stated dates of maturity;

(b) with respect to Balloon Indebtedness, it will be assumed that the principal of such Balloon Indebtedness, together with interest at the rate applicable to such Balloon Indebtedness, will be amortized in equal annual installments over a period of thirty years from the date the Balloon Indebtedness was incurred;

(c) with respect to Variable Rate Indebtedness, interest on such Indebtedness will be calculated at the Average Interest Rate;

(d) with respect to obligations related to any Credit Facility which constitute Parity Indebtedness or Subordinate Debt, to the extent that such Credit Facility has not been used or drawn upon, or any such drawing or use has been reimbursed to the provider the principal and interest relating to such Credit Facility will not be included in the Debt Service Requirement for such Parity Indebtedness or Subordinate Debt;

(e) with respect to any Derivative Indebtedness, the interest on such Indebtedness will be calculated at the Hedged Fixed Rate, if any; and

(f) with respect to any Indebtedness issued or incurred in the form of "tax credit bonds," the City may, at its option, disregard any portion of interest on such Indebtedness for which the City expects to be reimbursed by the federal government (for example, Direct Pay Build America Bonds issued under Section 54AA of the Code).

"Debt Service Reserve Fund" means the debt service reserve fund established under the Master Indenture.

"Debt Service Reserve Requirement" means, as of any particular date of calculation, the sum of (i) the Prior DSR Requirement computed with respect to the then-Outstanding Bonds of the Prior Series only and (ii) with respect to any other Series of Bonds, an amount at least equal to the least of (x) the maximum principal and interest due on the then-Outstanding Bonds of such Series in the then current or any future Fiscal Year, (y) 125% of the average annual principal and interest due on the then-Outstanding Bonds of such Series in the then current and each future Fiscal Year and (z) 10% of the proceeds of such Series of Bonds (within the meaning of the Code); provided that the Supplemental Indenture corresponding to any Series of Bonds (other than the Prior Series) may provide for the establishment of a separate account in the Debt Service Reserve Fund to secure only such Series of Bonds (and any Bonds issued to refund such Series in part), with such Series of Bonds having no claim on the other moneys deposited to the credit of the Debt Service Reserve Fund or any other account therein, and may provide for a

separate Debt Service Reserve Requirement for such Series of Bonds to be calculated as set forth in the corresponding Supplemental Indenture. With respect to any Series of Bonds, the Debt Service Reserve Requirement may be increased by the City to the extent that there is delivered to the Trustee an opinion of Bond Counsel to the effect that the increase will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. In determining the amount of principal and interest due on Bonds which are Variable Rate Indebtedness, interest will be calculated at a rate equal to the greater of (i) the actual interest rate on the Bonds in effect on the date of their issuance or (ii) the current average yield on municipal revenue bonds maturing in thirty years, according to the weekly index published by The Bond Buyer for the week immediately preceding the week in which the Bonds are issued. In the event The Bond Buyer is not published as the date of any determination, or if published, does not publish an index of the current yield on municipal revenue bonds maturing in thirty years, an alternative index or other source of current bond yields may be designated by the Authorized City Representative. In determining the amount of principal and interest due on Bonds which are Balloon Indebtedness, the amount of principal and interest on the Balloon Indebtedness due in any year will be calculated by assuming that the original principal amount of the Balloon Indebtedness amortized in equal annual installments over a period of thirty years from the date the Balloon Indebtedness was incurred. In computing the amount of the Debt Service Reserve Requirement, the City may, at its option, disregard any portion of interest on Bonds issued in the form of "tax credit bonds" for which the City expects to be reimbursed by the federal government (for example, Direct Pay Build America Bonds issued under Section 54AA of the Code).

"Defeased Municipal Obligations" mean obligations of state or local government municipal bond issuers, which are rated in the highest rating category by Moody's Investors Service, Inc., and Standard & Poor's Ratings Services, provision for the payment of the principal of and interest on which has been made by the deposit with a trustee or escrow agent of Government Obligations or Government Certificates, the maturing principal of and interest on which, when due and payable, will provide sufficient money to pay the principal of, redemption premiums, if any, and interest on such obligations of state or local government municipal bond issuers.

"Defeased Municipal Obligation Certificate" means evidence of ownership of a proportionate interest in specified Obligations, which Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any of its states acceptable to the Trustee in the capacity of custodian.

"Defeasance Obligations" mean (i) noncallable Government Obligations, (ii) Government Certificates, (iii) Defeased Municipal Obligations and (iv) Defeased Municipal Obligation Certificates. With respect to the 2012 Bonds only, the term "Defeasance Obligations" includes the foregoing and noncallable bonds, notes and other obligations of any agency of the United States eligible for the investment of public sinking funds under the Investment Act.

"De Minimis Amount" means (i) in reference to original issue discount (as defined in Section 1273(a)(1) of the Code) or premium on an obligation (A) an amount that does not exceed 2% multiplied by the stated redemption price at maturity plus (B) any original issue premium that is attributable exclusively to reasonable underwriter's compensation; and (ii) in reference to market discount (as defined in Section 1278(a)(2)(A) of the Code) or premium on an obligation, an amount that does not exceed 2% multiplied by the stated redemption price at maturity.

"Derivative Indebtedness" has the meaning given to it in any Supplemental Indenture authorizing the issuance of a Series of Bonds and may also include, but is not limited to, a portion of Indebtedness which bears interest at a variable rate during any future period of time meeting the following requirements:

(a) the City has entered into a Hedge Agreement in respect of such Indebtedness within sixty days of the date of the issuance of the Indebtedness, and

(b) the Hedge Agreement provides that during the entire period that such Indebtedness bears interest at a variable rate the City will pay a fixed rate to the provider of the Hedge Agreement and the provider of the Hedge Agreement will pay the variable rate borne by such Indebtedness, or such Indebtedness, taken together with the Hedge Agreement, results in a net fixed rate payable by the City to the provider of the Hedge Agreement for such period of time (the "Hedged Fixed Rate"), assuming the City and the provider of the Hedge Agreement make all payments required to be made by the terms of the Hedge Agreement.



"Director of Finance" means the Director of Finance of the City or, if the City no longer has a person with the title of Director of Finance, the person filling the office with similar duties as the Director of Finance.

"Director of Utilities" means the Director of Utilities of the City or, if the City no longer has a person with the title of Director of Utilities, the person filling the office with similar duties as the Director of Utilities.

"Existing Debt Service" means for any Fiscal Year the amount budgeted to be paid to the general fund of the City to pay debt service on general obligation bonds of the City issued to pay costs of the System.

"Event of Default" means any Event of Default described in "Summary of Certain Provisions of the Indenture – Event of Default."

"Financial Institution" means any Bank, Insurance Company or Dealer.

"Fiscal Year" means the period of twelve months established by the City as its annual accounting period.

"Fixed Rate Investment" means any obligation the yield on which was fixed and determinable on its issue date.

"General Reserve Fund" means the general reserve funds established under the Master Indenture.

"Government Certificates" mean evidences of ownership of a proportionate interest in specified Government Obligations which are held by a bank or trust company organized and existing under the laws of the United States of America or any of its states acceptable to the Trustee in the capacity of custodian.

"Government Obligations" mean bonds, notes and other direct obligations of the United States of America and securities unconditionally guaranteed as to the timely payment by the United States of America.

"Hedge Agreement" means a contract or agreement, payable from Net Revenues on a parity with or subordinate to any Bonds or Parity Indebtedness intended to place Indebtedness on the interest rate, currency, cash flow or other basis desired by the City, including, without limitation, any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between the City and a counterparty; provided that not less than 30 days prior to the City's execution of such contract or agreement, each Rating Agency which maintains a rating with respect to any Indebtedness receives notice in writing of the City's pending execution thereof; and provided further that at the time of origination each Rating Agency which maintains a rating with respect to any Indebtedness confirms in writing to the City that the City's execution and delivery of such contract will not result in a downgrading, withdrawal or suspension of such rating.

"Hedge Fixed Rate" means Hedged Fixed Rate as defined in definition of Derivative Indebtedness.

"Indebtedness" means the Bonds, any Parity Indebtedness or any Subordinate Debt.

"Insurance Company" means an insurance company with a long-term debt rating within one of the three highest rating categories by at least one of the Rating Agencies.

"Interest Account" means the Interest Account of the Bond Fund.

"Interest Payment Date" means any date on which a payment of interest on any Bonds or any Parity Indebtedness is due.

"Interest Period" means the period from and including an Interest Payment Date to and including the day before the next Interest Payment Date, except the first Interest Period for each Series of Bonds and Parity

Indebtedness will be the period from and including the date specified in the Supplemental Indenture authorizing the Series of Bonds or the document authorizing the Parity Indebtedness for the Bonds or Parity Indebtedness to begin to bear interest to and including the day before the first Interest Payment Date.

"Investment Act" means the Investment of Public Funds Act, Chapter 18, Title 2.1, Code of Virginia of 1950, as amended.

"Master Indenture" means the Master Indenture of Trust, between the City and the Trustee, as it may be modified, altered, amended and supplemented from time to time in accordance with its terms.

"Net Proceeds" mean the proceeds from any insurance recovery remaining after payment of attorneys' fees, fees and expenses of the City and the Trustee and all other expenses incurred in collection of the gross proceeds.

"Net Revenues" mean Revenues less Operating Expenses.

"Operating Component" means the portion of the Cost of Contracted Services reasonably determined by an Authorized City Representative, in a certificate delivered to the Trustee from time to time, to be directly or indirectly attributable to the ownership or operation of the System without regard to its treatment under generally accepted accounting principles; provided, however, if no such determination is made, all of the Cost of Contracted Services will be treated as Operating Component.

"Operating Expenses" mean all expenses which may reasonably be determined by the City in its Annual Budget to be directly or indirectly attributable to the ownership or operation of the System and payable as Operating Expenses without regard to the treatment of such expenses under generally accepted accounting principles, including, without limitation, reasonable and usual expenses of administration, operation, maintenance and repair, which may include expenses not annually recurring, costs of billing and collecting the rates, fees and charges for the use of or the services furnished by the System, the Operating Component of the Cost of Contracted Services, insurance and surety bond premiums and reserves, other charges and fees necessary for the maintenance of adequate insurance coverage for the City and the System, fees and payments for any Credit Facility, legal, engineering and auditing expenses, expenses and compensation of the Trustee, reimbursement to the City's general fund for the cost of services rendered with respect to the System, and other expenses of the City required to be paid by law or under the Master Indenture or any Supplemental Indenture, but will not include (i) any allowance for amortization or depreciation, (ii) deposits or transfers to the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Subordinate Debt Service Fund, the Repair and Replacement Reserve Fund, the Rate Stabilization Fund, (iii) payments for Existing Debt Service or City Obligations and (iv) expenditures which the City makes an election to capitalize.

"Operating Fund" means the operating fund established under the Master Indenture.

"Opinion of Counsel" means a written opinion of any Counsel in form and substance acceptable to the Trustee.

"Option Obligations" mean any Indebtedness which by its terms may be tendered by and at the option of its Owner or holder for purchase before its stated maturity.

"Outstanding" means, at any date, the aggregate of all Indebtedness authorized, issued, authenticated and delivered under the Master Indenture and not paid and discharged, except:

- (a) Indebtedness cancelled or surrendered to the Paying Agent for cancellation;
- (b) Indebtedness deemed to have been paid as provided in the Master Indenture or in such other instrument authorizing its issuance; and

(c) Indebtedness in lieu of or in substitution for which other Indebtedness has been authenticated and delivered pursuant to the Master Indenture and any Supplemental Indenture unless proof satisfactory to the Paying Agent is presented that any such Indebtedness is held by a bona fide Owner.

In determining whether Owners of a requisite aggregate principal amount of the Outstanding Bonds or Parity Indebtedness have concurred in any request, demand, authorization, direction, notice, consent or waiver under the Indenture, the principal amount of Capital Appreciation Bonds will be their Accreted Value (as of the immediately preceding Compounding Date). Indebtedness which is owned by the City will be disregarded and deemed not to be Outstanding for the purpose of any such determination; provided, however, that for the purpose of determining whether the Trustee will be protected in relying upon any request, demand, authorization, direction, notice, consent or waiver, only Indebtedness which the Trustee knows to be so owned will be disregarded.

"Owner" means the Person in whose name a particular Bond is registered on the records of the Paying Agent or who is the holder of Parity Indebtedness.

"Parity Debt Service" means, for any period of twelve consecutive months, the Debt Service Requirement with respect to Parity Indebtedness.

"Parity Debt Service Component" means all or any portion of the Debt Service Component of the Cost of Contracted Services under the Service Contracts meeting the requirements of the Master Indenture that an Authorized City Representative, determines in a certificate delivered to the Trustee will be payable on a parity with the Bonds.

"Parity Debt Service Fund" means the parity debt service fund established under the Master Indenture.

"Parity Indebtedness" means (i) the Parity Debt Service Component of the Cost of Contracted Services and (ii) any other Parity Indebtedness incurred in accordance with the Master Indenture which is secured on a parity with the Bonds, including bonds, notes or other evidences of indebtedness issued pursuant to the Master Indenture and any Supplemental Indenture equally and ratably secured by a pledge of Net Revenues and, at the City's option, any other security pledged to such bonds, notes or other evidences of indebtedness but which are not secured by the Debt Service Reserve Fund. Parity Indebtedness may also include Bond Anticipation Notes, Hedge Agreements or obligations with respect to Credit Facilities; provided, however, Parity Indebtedness does not include any Bonds or any other indebtedness of the City issued from the time to time under any other indenture, trust agreement, ordinance, resolution or other instrument not secured by a pledge of Revenues.

"Paying Agent" means any paying agent for the Bonds (and may include the Trustee) and its successor or successors appointed pursuant to the provisions of any Supplemental Indenture. Unless otherwise provided in a Supplemental Indenture, the Trustee will be the Paying Agent.

"Person" means an individual, a corporation, a partnership, a general partner of a partnership, an association, a joint stock company, a trust, any unincorporated organization, or a governmental unit or its political subdivision.

"PILOT" means for any Fiscal Year the amount budgeted to be paid with respect to the System to the general fund of the City in lieu of taxes.

"Plain Par Investments" mean a Fixed Rate Investment:

(a) Issued with not more than a De Minimis Amount of original issue discount or premium, or, if acquired on a date other than its issue date, acquired with not more than a De Minimis Amount of market discount or premium;

(b) Issued for a price that does not include accrued interest other than pre-issuance accrued interest;

(c) That bears interest from its issue date at a single, stated, fixed rate, with interest unconditionally payable at least annually; and

(d) That has a lowest stated redemption price that is not less than its outstanding stated principal amount.

"Present Value" means the present value computed under the economic accrual method (using the same compounding interval and financial conventions used to compute the yield on the relevant Series of Bonds under Section 148 of the Code), of all unconditionally payable receipts to be received from and payments to be paid for an investment after the valuation date, using the Yield (as defined in the Tax Compliance Agreement) on the investment as the discount rate.

"Principal Account" means the Principal Account of the Bond Fund.

"Principal Payment Date" means any date on which a payment of principal or Accreted Value of any Bonds or any Parity Indebtedness is due.

"Principal Period" means the period from and including a Principal Payment Date to and including the day before the next Principal Payment Date, except the first Principal Period for each Series of Bonds or Parity Indebtedness will be the twelve months immediately preceding the first Principal Payment Date unless some other period is specified in the Supplemental Indenture authorizing the Series of Bonds or the Service Contract or other document authorizing the Parity Indebtedness.

"Prior DSR Requirement" means an amount equal at least to the lesser of (i) the maximum principal and interest due on the Prior Bonds then Outstanding in the then current or any future Fiscal Year and (ii) 125% of the average annual principal and interest due on the Prior Bonds then Outstanding in the then current and each future Fiscal Year.

"Prior Series" means, for purposes of this Appendix A and as of any particular date of calculation, the then-Outstanding 1993 Bonds, 1995 Bonds, 1998 Bonds, 2001 Bonds, 2005 Bonds and 2010 Bonds.

"Project" will have the meaning set forth in any Supplemental Indenture.

"Project Fund" means the project fund established under the Master Indenture.

"Rate Stabilization Fund" means the Rate Stabilization Fund established under the Master Indenture.

"Rate Stabilization Requirement" means such amount as may be established by the City pursuant to the Master Indenture, and if no such amount is established, the Rate Stabilization Requirement will be zero.

"Rating Agency" means any nationally recognized securities rating agency then rating the Bonds at the request of the City.

"Redemption Account" means the Redemption Account of the Bond Fund.

"Refunding Bonds" means a Series or portion of a Series of Bonds issued to retire or refund all or any portion of another Series of Bonds, Parity Indebtedness or other obligations of the City.

"Repair and Replacement Reserve Fund" means the repair and replacement reserve fund established under the Master Indenture.

"Replacement Reserve Requirement" means an amount to be determined by the City pursuant to Section 7.8(b) of the Master Indenture, but not less than \$1,000,000.

"Revenue Fund" means the fund established in the Master Indenture.

"Revenues" mean all revenues, receipts and other income derived or received by the City from the ownership or operation of the System including, without limitation, any investment earnings and transfers, if any, from the Rate Stabilization Fund to the Revenue Fund, but excluding (i) any gift, grant or contributions to the extent restricted by the donor or grantor to a particular purpose inconsistent with its use for the payment of Senior Debt Service or Subordinate Debt Service, (ii) proceeds derived from insurance or condemnation, and (iii) any transfers from the Revenue Fund to the Rate Stabilization Fund. Any lump sum prepayment of Revenues received by the City will be reserved by the City in a subaccount in the Revenue Fund and disbursed from the subaccount and recognized as Revenues monthly over the appropriate accrual period.

"ROI" means for any Fiscal Year the amount budgeted to be paid with respect to the System to the general fund of the City as a return on the City's investment in the System.

"Senior Debt Service" means for any period of twelve consecutive months the sum of Bond Debt Service and Parity Debt Service during the period.

"Serial Bonds" mean any Bonds of a Series which are stated to mature in annual installments including any Capital Appreciation Bonds, but not including any Term Bonds.

"Series" or "Series of Bonds" mean a separate series of Bonds issued under the Master Indenture pursuant to a Supplemental Indenture.

"Service Contracts" mean any contracts or agreements for Contracted Services entered into by the City from time to time.

"Subordinate Debt" means bonds, notes or other evidences of indebtedness of the City, including the Debt Service Component of the Cost of Contracted Services and any lease which is required to be capitalized by generally accepted accounting principles which is not a Parity Debt Service Component, secured by a pledge of Net Revenues expressly made subordinate to the pledge of Net Revenues securing the Bonds and Parity Indebtedness or which is unsecured.

"Subordinate Debt Service" means for any period of twelve consecutive months the Debt Service Requirement with respect to any Subordinate Debt and the Debt Service Component of the Cost of Contracted Services which is not a Parity Debt Service Component.

"Subordinate Debt Service Fund" means the subordinate debt service fund established in the Master Indenture.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Master Indenture as originally executed, which is duly executed and delivered in accordance with the provisions of the Master Indenture.

"System" means the water system, owned or operated by or on behalf of the City, including but not limited to, any Project and all additions, extensions, improvements and replacements to the System, and any other utility system which may be added by the City as a part of the System pursuant to the Master Indenture, but excluding any independent utility systems hereafter owned or operated by the City and accounted for separately by the City unless made part of the System by the City.

"Term Bonds" means Bonds of a Series which are stated to mature on one date and which are subject to scheduled mandatory redemption before such date.

"Test Period" has the meaning given to it in the Indenture in connection with the issuance of Additional Bonds.

"Variable Rate Indebtedness" means any Indebtedness, interest on which is not established at the time of its issuance at a rate which is fixed until its maturity.

### **Summary of Certain Provisions of the Indenture**

The following is a brief summary of certain provisions contained in the Master Indenture and the Ninth Supplemental Indenture and does not purport to be a complete statement of all of the provisions of those documents. Reference is made to the Master Indenture and the Ninth Supplemental Indenture in their entirety for complete information on their terms and on the terms of the 2012 Bonds, the applicable security provisions and the application of the Revenues. See also "DESCRIPTION OF THE 2012 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" in the Official Statement.

#### **Definitions**

Unless defined below, all capitalized terms used in this Appendix have the meanings set forth in the foregoing section entitled "Definitions of Certain Terms."

#### **Additional Bonds**

In connection with the issuance of Additional Bonds, the City is required to file, among other things, the following documents with the Trustee:

(1) A certificate of the City dated as of the date of delivery of the Additional Bonds and signed by the City Manager or Director of Finance to the effect that to the best of his or her knowledge, upon and immediately following the issuance of the Additional Bonds, no event of default under the Indenture and no event or condition which, with notice or lapse of time or both, would become an event of default, will have occurred and be continuing or, if such an event or condition has occurred and is continuing, it will be cured upon the issuance of the Additional Bonds or upon completion of the Project to be financed with the Additional Bonds.

(2) A copy of the resolution or ordinance and an executed counterpart of the supplement to the Master Indenture authorizing the Additional Bonds, which supplement will specify, among other things, the details of the Additional Bonds and the amount, if any, to be deposited from the proceeds of sale of the Additional Bonds into the Debt Service Reserve Fund.

(3) An opinion of Bond Counsel, subject to customary exceptions and qualifications, to the effect that the issuance of the Additional Bonds has been duly authorized, that the Additional Bonds are valid and binding limited obligations of the City entitled to the benefits and security of the Master Indenture and that the interest on the Additional Bonds is excludable from gross income for purposes of federal income taxation or, if the interest is not excludable, that the issuance and the intended use of the proceeds of the Additional Bonds will have no adverse effect on the tax exempt status of interest on any other Bonds then Outstanding, the interest on which was excludable from gross income when issued.

(4) If the Additional Bonds are issued to pay the cost of acquiring, renovating, equipping or constructing improvements, extensions, additions or replacements to the System,

(a) A written statement from (i) Director of Utilities setting forth his or her estimate of the cost of the acquisition, renovation, equipping or construction (including all financing, reserves and related costs) and the date on which such acquisition, renovation, equipping or construction will be completed and (ii) the Director of Finance giving his or her opinion that the proceeds of the Additional Bonds, together with any other money available for such purpose, will be sufficient to pay the cost of the acquisition, renovation, equipping or construction; and

(b) The amount of the Net Revenues as received during any twelve (12) consecutive months of the twenty four months immediately preceding the issuance of the Bonds (the "Test Period"), as certified by the Director of Finance or the Consulting Engineer, subject to adjustment as permitted in subsection (c) below, will be equal to the revenue covenant contained in the Master Indenture for the Test Period taking into account the maximum principal and interest payments due on (i) any Bonds and Parity Indebtedness then outstanding, and (ii) the Bonds and Parity Indebtedness then proposed to be issued.

(c) Adjustments to Net Revenues permitted by the foregoing subsection, shall be certified by the Director of Finance or the Consulting Engineer to the Director of Utilities and shall be computed as follows:

(i) If the City, before the issuance of the proposed Bonds, has increased the rates, fees, rentals or other charges for the services or use of the System, the Net Revenues for the Test Period shall be adjusted to include the Net Revenues which would have been derived from the System during the Test Period as if such increased rates, fees, rentals or other charges had been in effect during the Test Period.

(ii) If the City has acquired or has contracted to acquire any privately or publicly owned existing water system, sewer system, solid waste collection and disposal system, stormwater retention system, or any other utility system that the City will consolidate with the System, the cost of which shall be paid from all or part of the proceeds of the issuance of the proposed Bonds, then the Net Revenues derived from the System during the Test Period shall be increased by adding to the Net Revenues for the Test Period the projected Net Revenues which would have been derived from the System as if such utility system had been operated by the City as part of the System during the Test Period.

(iii) If the City has entered into a contract on or before the date of the issuance of the proposed Bonds or Parity Indebtedness, with any public body whereby the City has agreed to furnish services consistent with the services performed by the System, which contract (A) is for a duration of not less than the final maturity of the Bonds or Parity Indebtedness proposed to be issued, or (B) if less than the final maturity of such Bonds or Parity Indebtedness, contain provisions obligating the party contracting with the City to pay in full its allocated share of the costs of capital improvements to the System needed to carry out the terms of the contract, then the Net Revenues of the System during the Test Period shall be increased by the least amount which the entity receiving such services shall be required to pay by the terms of the contract in any one year during which the City is to furnish services and such Bonds or Parity Indebtedness are anticipated to be Outstanding, after deducting from such payment the estimated proportion of operating expenses and repair, renewal and replacement cost attributable in such year to such services.

(iv) If there is an estimated increase in Revenues to be received by the City, as a result of additions, extensions or improvements to the System during the period of three years after delivery of the Bonds and the governing body of the City has by ordinance or resolution authorized the additions, extensions or improvements (and if such additions, extensions or improvements involve another jurisdiction, the governing body of such other jurisdiction has also given its approval by ordinance or resolution), then the Net Revenues derived from the System during the Test Period will be increased by the estimated average annual additional Net Revenues for the first two full years after such additions, improvements or extensions have been placed in service.

In connection with any Net Revenue adjustment permitted by subparagraphs (ii), (iii) or (iv) above, the City may take into account any increases in rates, fees or charges that have been approved by the City at the time of certification.

(5) If the Additional Bonds are issued to refund any of the Bonds or other Parity Indebtedness of the City issued under the Indenture,

(a) Evidence satisfactory to the Trustee that the City has made provision as required by the Indenture for the payment or redemption of all Bonds or Parity Indebtedness of the City to be refunded;

(b) A written determination by the Trustee or by a firm of independent certified public accountants that the proceeds (excluding accrued interest) of the refunding bonds, together with any other money deposited with the Trustee for such purpose and the investment income to be earned on funds held by the Trustee for the payment or redemption of Bonds or Parity Indebtedness, will be sufficient to pay, whether upon redemption or at maturity, the principal of and premium, if any, and interest on the Bonds or Parity Indebtedness to be refunded and the estimated expenses incident to the refunding; and

(c) (i) A written determination by the Trustee or by a firm of independent certified public accountants that after the issuance of the refunding bonds and the provision for payment or redemption of all Bonds or Parity Indebtedness of the City to be refunded, the Senior Debt Service for each Fiscal Year in which there will be Outstanding Bonds of any Series not to be refunded will be not more than the Senior Debt Service for the Fiscal Year would have been on all Outstanding Bonds and Parity Indebtedness immediately before the issuance of the refunding bonds, including the Bonds and Parity Indebtedness of the City to be refunded; or (ii) in the case of Refunding Bonds issued to refund Parity Indebtedness issued under the Master Indenture in the form of Bond Anticipation Notes, the City shall provide the written certification required in 4(b) above; or (iii) if the Refunding Bonds will satisfy neither (i) nor (ii) above, a written certification similar to that required in 4(b) above with respect to the first two full Fiscal Years following the issuance of the Refunding Bonds.

(6) If the Additional Bonds are issued to refund obligations of the City with respect to the System other than Bonds or Parity Indebtedness, the certifications similar to those required in 5(a) and 4(b) above.

The proceeds of Additional Bonds (including accrued interest) will be applied as set forth in the Ninth Supplemental Indenture authorizing their issuance.

### **Parity Indebtedness**

The City may designate the Debt Service Component of the Cost of Contracted Services as Parity Indebtedness and may issue or refinance other Parity Indebtedness provided the requirements of paragraphs (4) or (5), as appropriate, for the issuance of Additional Bonds are met as if the Parity Indebtedness was a series of Additional Bonds. Parity Indebtedness will be secured by the pledge of Net Revenues under the Indenture on a parity with Bonds issued under the Indenture, except Parity Indebtedness will not be secured by money in the Project Fund, the Bond Fund or the Debt Service Reserve Fund.

### **Subordinate Debt**

Nothing in the Indenture prohibits or prevents the City from issuing Subordinate Debt for any lawful purpose payable from and secured by a pledge of Net Revenues subject and subordinate to the payment of any Bonds and Parity Indebtedness; provided, however, any Subordinate Debt may only be declared immediately due and payable if payment of the Bonds and Parity Indebtedness has been accelerated in accordance with the Indenture.

### **Establishment of Funds and Accounts**

The following funds are established under the Indenture, to be held as follows:

- (1) City of Norfolk, Virginia, Project Fund, to be held by or at the direction of the City;
- (2) City of Norfolk, Virginia, Revenue Fund, to be held by or at the direction of the City;
- (3) City of Norfolk, Virginia, Operating Fund, to be held by or at the direction of the City;
- (4) City of Norfolk, Virginia, Bond Fund, in which there is established an Interest Account, a Principal Account and a Redemption Account and a Capitalized Interest Account, to be held by the Trustee;
- (5) City of Norfolk, Virginia, Parity Debt Service Fund, to be held by or at the direction of the City;
- (6) City of Norfolk, Virginia, Debt Service Reserve Fund, to be held by the Trustee;
- (7) City of Norfolk, Virginia, Subordinate Debt Service Fund, to be held by or at the direction of the City;



- (8) City of Norfolk, Virginia, Repair and Replacement Reserve Fund, to be held by or at the direction of the City;
- (9) City of Norfolk, Virginia, Rate Stabilization Fund, to be held by or at the direction of the City; and
- (10) City of Norfolk, Virginia, General Reserve Fund, to be held by or at the direction of the City.

### **Project Fund**

The City will maintain for each Series of Bonds a separate subaccount, as provided in any supplemental indenture. Net Proceeds used to repair, restore or reconstruct the System will also be deposited in the Project Fund and maintained within separate subaccounts for each Series of Bonds.

### **Revenue Fund**

The City will collect and deposit in the Revenue Fund as received all Revenues. Money on deposit in the Revenue Fund will be used as follows:

- (1) To make monthly deposits to the Operating Fund in an amount such that the balance on deposit in the Fund will be equal to not less than one sixth of the Operating Expenses budgeted to be paid from the Fund in the current Annual Budget;
- (2) To make equal monthly deposits to the Bond Fund and Parity Debt Service Fund so that there will be sufficient money in the Funds to pay the Bonds and Parity Indebtedness when due;
- (3) If the amount in the Debt Service Reserve Fund or any account therein is less than its respective Debt Service Reserve Requirement, the amount of money remaining in the Revenue Fund necessary to restore the Debt Service Reserve Fund and the accounts therein to their respective Debt Service Reserve Requirements on a pro rata basis, or all of the money remaining if less than the amount necessary; provided that such restoration of the amount in the Debt Service Reserve Fund and any account therein must occur not later than twelve months following the determination of the deficiency;
- (4) To make deposits to the Subordinate Debt Service Fund of amounts determined by the City to be necessary to pay Subordinate Debt when due;
- (5) To make deposits to the Repair and Replacement Reserve Fund to accumulate the Replacement Reserve Requirement in thirty six approximately equal installments and then to restore any deficit in sixty approximately equal monthly installments;
- (6) To make other deposits to the Repair and Replacement Reserve Fund in amounts determined by the City;
- (7) To make deposits to the Rate Stabilization Fund to accumulate the Rate Stabilization Requirement in twenty four approximately equal installments and thereafter to restore any deficit in such Fund in the same number of installments; and
- (8) To make deposits of any remaining balance to the General Reserve Fund.

### **Operating Fund**

The City will pay Operating Expenses from the Operating Fund as they become due and in accordance with the purposes and amounts provided in the Annual Budget. In the event the balance in the Operating Fund is insufficient for its purposes, the City will transfer to the Operating Fund such amounts as may be necessary first from the General Reserve Fund and then from the Repair and Replacement Reserve Fund. The City may also make transfers from the Rate Stabilization Fund to the Operating Fund to cover any deficit and may do so before, in

combination with, or in lieu of transfers from the General Reserve Fund and the Repair and Replacement Reserve Fund. Interest received on and any profit realized from the investment of money in the Operating Fund will be transferred as earned to the Revenue Fund.

### **Bond Fund**

The Trustee will pay the principal of and interest on the Bonds when due from the Principal Account and the Interest Account, respectively. The Trustee will use money in the Redemption Account of the Bond Fund to redeem Bonds pursuant to any optional redemption provision exercised by the City. In the event the balances on deposit in the Principal Account or the Interest Account are insufficient, the Trustee will transfer to such Accounts the amount necessary to pay the Bonds from the Debt Service Reserve Fund after making transfers first from the General Reserve Fund, the Repair and Replacement Reserve Fund and the Rate Stabilization Fund. Interest received on and any profit realized from the investment of money in the Bond Fund will become a part of the account in the Bond Fund in which the investment is held.

### **Parity Debt Service Fund**

The City will use money in the Parity Debt Service Fund to make payments on any Parity Indebtedness when due. Interest received on and any profit realized from the investment of money in the Parity Debt Service Fund will be deposited when received in the Revenue Fund. Amounts in the Parity Debt Service Fund do not secure the Outstanding Series of Bonds, and will not secure the 2012 Bonds or any Additional Bonds.

### **Debt Service Reserve Fund**

The Debt Service Reserve Fund and any accounts therein will be used by the Trustee to make transfers to the Bond Fund to the extent necessary to pay when due the principal of and interest on the Bonds if the amounts on deposit in the Principal and Interest Accounts of the Bond Fund, and any amounts transferred by the City to the Debt Service Reserve Fund from the General Reserve Fund and the Repair and Replacement Reserve Fund are insufficient for such purpose. If there is a deficiency in the balance on deposit in the Debt Service Reserve Fund or any account therein, the City will transfer funds from the Revenue Fund to restore the Fund or account in the manner described above.

In lieu of maintaining and depositing money or securities in the Debt Service Reserve Fund or any account therein, the City may deposit with the Trustee a letter of credit, bond insurance policy or surety bond in an amount equal to all or a portion of the requirement for the Fund or such account, provided the issuer of the letter of credit or surety bond or the bond insurer, as appropriate, is rated in one of the two highest long term debt rating categories by the Rating Agencies then rating the Bonds, without regard to any refinement or gradation of such rating category by numerical modifier or otherwise. Any letter of credit, bond insurance policy or surety bond will permit the Trustee to draw or obtain amounts under it for deposit in the Debt Service Reserve Fund or such account that, together with any money already on deposit therein, are not less than the required balance.

The Trustee will make a drawing on the letter of credit or obtain funds under the bond insurance policy or surety bond before its expiration or termination (1) whenever money is required for the purposes for which Debt Service Reserve Fund money may be applied and (2) unless the letter of credit or bond insurance policy has been extended or a qualified replacement for it delivered to the Trustee, in the event the City has not deposited money in immediately available funds equal to the respective requirement at least two Business Days preceding the expiration or termination of the letter of credit, bond insurance policy or surety bond.

If the City provides the Trustee with a letter of credit, bond insurance policy or surety bond, the Trustee will transfer the funds then in the Debt Service Reserve Fund or account therein to the City, provided the City delivers to the Trustee an opinion of Bond Counsel that such transfer of funds will not adversely affect the exclusion from gross income for purposes of federal income taxation of interest on any 2012 Bonds and the City covenants to comply with any directions or restrictions contained in such opinion concerning the use of the funds.

### **Subordinate Debt Service Fund**

The City will use money in the Subordinate Debt Service Fund to make payments of debt service on any Subordinate Debt when due. Interest received on and any profit realized from the investment of money in the Subordinate Debt Service Fund will be deposited when received in the Revenue Fund.

### **Repair and Replacement Reserve Fund**

The City may use amounts in the Repair and Replacement Reserve Fund for any of the following purposes:

- (1) Reasonable and necessary expenses with respect to the System for major repairs, replacement or maintenance of items of a type not recurring annually;
- (2) To pay costs of reconstruction of parts of the System;
- (3) To pay costs of construction of parts of the System;
- (4) To pay any capital costs with respect to the System;
- (5) To make payments on Service Contracts; or
- (6) To make deposits to the Revenue Fund, the Operating Fund, the Bond Fund, the Parity Debt Service Fund or the Debt Service Reserve Fund.

At least biennially, the City agrees to review the adequacy of the amount of the Replacement Reserve Requirement under then current operating conditions, and in light of then applicable operating, replacement and maintenance costs of the major components of comparable systems. If at any time the City determines in its judgment that the amount of the Replacement Reserve Requirement should be increased or decreased, it will notify the Trustee of its determination setting forth the amount of the new Replacement Reserve Requirement. The new Replacement Reserve Requirement will take effect on the date of the receipt of the notice by the Trustee unless some other effective date is specified in the notice in which case the date specified in the notice will control. In no event will such requirement be reduced below \$1,000,000.

If the amount on deposit in the Repair and Replacement Reserve Fund exceeds the Replacement Reserve Requirement, the City may transfer the excess to the Rate Stabilization Fund or the General Reserve Fund.

### **Rate Stabilization Fund**

The City may at its option make transfers from the Rate Stabilization Fund to the Revenue Fund and amounts so transferred will be deemed Revenues. Interest earnings or any profit from investing the Rate Stabilization Fund will be transferred at least monthly to the Revenue Fund.

The City may at any time reduce or increase the balance in the Rate Stabilization Fund to any amount, including zero upon certification of the Director of Finance setting forth the amount to be withdrawn or added. Upon satisfaction of the requirements set forth above, the amount of the reduction in the Rate Stabilization Fund will be transferred from the Rate Stabilization Fund to the Revenue Fund, unless otherwise specified in a Supplemental Indenture.

### **General Reserve Fund**

Money on deposit in the General Reserve Fund may be used for any lawful purpose. The City has agreed to use money in the General Reserve Fund to cure deficits in the Operating Fund, the Bond Fund, the Parity Debt Service Fund and the Debt Service Reserve Fund. Money in the General Reserve Fund is not pledged to secure the Bonds or Parity Indebtedness.

## Investments

Any money held in any funds and accounts established by the Indenture, except the Bond Fund and the Debt Service Reserve Fund, may be separately invested and reinvested by the Trustee, at the request of and as directed by an Authorized Representative of the City, in any of the following investments which are at the time legal investments for public funds under the Investment Act, or any subsequent provision of law applicable to such investments:

(1) Bonds, notes and other evidences of indebtedness to which the full faith and credit of the Commonwealth is pledged for the payment of principal and interest or which are unconditionally guaranteed as to the payment of principal and interest by the Commonwealth and which are rated on one of the two highest debt rating categories by at least one of the Rating Agencies;

(2) Government Obligations;

(3) Government Certificates;

(4) Bonds, notes and other evidences of indebtedness of any county, city, town, district, authority or other public body of the Commonwealth which are rated in one of the two highest long term debt rating categories by at least one of the Rating Agencies;

(5) Savings accounts, time deposits and certificates of deposit in any Bank, including the Trustee and its affiliates, or savings and loan association within the Commonwealth, provided that the funds are secured in the manner required by the Virginia Security for Public Deposits Act or any successor legislation and no deposit will be made for more than five years;

(6) Obligations of the Export Import Bank, the Farmers Home Administration, the General Services Administration, the United States Maritime Administration, the Small Business Administration, the Government National Mortgage Association, the Department of Housing and Urban Development and the Federal Housing Administration, provided such obligations represent the full faith and credit of the United States;

(7) Bonds, notes or other evidences of indebtedness of the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank and the Federal Farm Credit Bank;

(8) Commercial paper issued by corporations, including banks and bank holding companies, organized under the laws of the United States or any State which is rated by Moody's Investors Service, Inc., or its successor, within its NCO/Moody's rating of prime 1 and by Standard & Poor's Ratings Services, or its successor, within its rating of A1, and which matures not more than 270 days after the date of its purchase;

(9) Corporate notes with a rating of at least Aa by Moody's and AA by Standard & Poor's Ratings Services with a maturity of not more than five years;

(10) Banker's acceptance, as permitted by the Investment Act, with banks rated in one of the two highest debt rating categories by at least one of the Rating Agencies;

(11) Investments pursuant to the Government Non Arbitrage Act, Article 7.1, Chapter 14, Title 2.1 of the Virginia Code; and

(12) Such other investments as may be permitted by the Investment Act; provided they are rated within one of the two highest rating categories by at least one of the Rating Agencies.

Any money held by the Trustee in the Bond Fund will be separately invested and reinvested by the Trustee, at the request of and as directed by an Authorized City Representative, only in investments described in subsections (1), (2), (3), (4) and (5) above, which are at the time legal investments for public sinking funds under the Investment Act, or any subsequent provisions of law applicable to such investments.

Any money held by the Trustee in the Debt Service Reserve Fund will be separately invested and reinvested by the Trustee, at the request of and as directed by an Authorized City Representative, only in investments described in subsections (1), (2), (3), (4), (5), (6) and (7) above.

Any investments described above may be purchased by the Trustee or the City pursuant to an overnight term or open repurchase agreement in accordance with the provisions of the Indenture.

Investments in a money market fund or in the shares of any other management type investment company registered under the Investment Company Act of 1940, the investments of which fund or company are exclusively in obligations or securities described in paragraphs (1), (2), (3), (4), (6) or (7) above, will be considered investments in obligations described in such subsections, provided that the fund or company, which investments are comprised exclusively of the obligations described in subsections (1), (4) or (7), is rated in the highest debt rating category by at least one of the Rating Agencies.

Subject to the provisions of any Supplemental Indenture, all investments will be held by or under the control of the Trustee or the City, as the case may be, and while so held will be deemed a part of the fund or account in which the money was originally held. Except as otherwise specifically provided in the Master Indenture or any Supplemental Indenture, the interest received on and any profit realized from such investments will be transferred not less frequently than monthly to the City for deposit in the Revenue Fund. The Trustee and the City will sell and reduce to cash a sufficient amount of such investments whenever the cash balance in any fund or account is insufficient for its purpose.

Investments of money in the Debt Service Reserve Fund must mature or be payable at the option of the Trustee for purposes of the Debt Service Reserve Fund not more than 10 years after the date of their purchase.

Money in funds and accounts held by the City may be pooled and commingled for purposes of investment.

Investments are subject to change to the extent and in the manner permitted by subsequent modification or amendment to the Investment Act; provided, however, any rating limitations imposed by the Indenture on a particular type or category of investment will apply to any additional permitted investments of the same or similar type or category.

### **Particular Covenants**

Compliance with Indenture; Payment of Bonds. In the Indenture, the City covenants to perform its obligations under the Indenture and related documents and to pay the Bonds, but only from the Net Revenues and other funds specifically pledged for such purpose.

Revenue Covenant. The City will establish, fix, charge and collect rates, fees and other charges for the use of and for the services furnished by the System, and will, from time to time and as often as appears necessary, revise such rates, fees and other charges, so that in each Fiscal Year Net Revenues are not less than the greater of (i) the sum of 1.1 times Senior Debt Service and 1.0 times Subordinated Debt Service for the Fiscal Year and (ii) 1.0 times the funding requirements for transfers from the Revenue Fund to the Operating Fund, the Bond Fund, the Parity Debt Service Fund, the Debt Service Reserve Fund, the Subordinate Debt Service Fund and the Repair and Replacement Reserve Fund as set forth in the Master Indenture.

Billing; Enforcement of Charges; Free Service. The City will bill the users of the services of the System no less frequently than quarterly, except in the case of wholesale customers who will be billed as provided in the contract between the City and the wholesale customer. The City has agreed to take all appropriate steps to enforce collection of any overdue charges by any remedy available at law or in equity. The City will not permit connection with or the use of the System, or furnish any services of the System, without making a charge based on the City's schedule of rates, fees and charges, except for connections and service for fire protection purposes.

Sale or Encumbrance. The City may grant easements, licenses or permits across, over or under parts of the System for streets, roads and utilities as will not adversely affect the use of the System. The City may sell or

otherwise dispose of any property constituting a part of the System which is either no longer needed or useful or is replaced from the proceeds of the disposition and any other necessary money with property serving the same or similar function. If the proceeds received from a sale or disposition not used to replace property exceeds \$100,000, the proceeds will at the option of the City be (1) applied to the payment or redemption of Bonds then Outstanding and Parity Indebtedness in a manner which in the opinion of Bond Counsel will not adversely affect the exclusion from gross income for purposes of federal income taxation of interest on any Bonds the interest on which was excludable on the date of their issuance or (2) deposited in the Repair and Replacement Reserve Fund and applied solely to pay the costs of capital improvements to the System. The City may transfer all or substantially all of the assets of the System to an authority or special purpose political subdivision; provided, the City's obligations under the Indenture are assumed in writing, the City receives an Opinion of Bond Counsel that the exempt status of the interest income on the Bonds will not be adversely affected and upon compliance with certain other conditions in the Indenture. The City may add to the System sewer systems, solid waste systems, storm water systems and other utilities on certain terms and conditions set forth in the Indenture similar to those regarding the transfer of System assets.

Creation of Liens. The City has agreed not to create or suffer to be created any lien or charge upon the System, except as provided in the Indenture.

Insurance. To the extent such insurance is available at reasonable costs, the City has agreed to continuously maintain and pay the premiums on insurance against such risks as are customarily insured against by other entities owning and operating similar systems.

Damage, Destruction, Condemnation and Loss of Title. If all or any part of the System is destroyed or damaged by fire or other casualty, condemned or lost by failure of title, the City will restore promptly the property damaged or destroyed to substantially the same condition as before the damage, destruction, condemnation or loss of title with such alterations and additions as the City may determine and which will not impair the capacity or character of the System for the purpose for which it then is being used or is intended to be used. The Trustee will apply as much as may be necessary of the Net Proceeds received on account of any the damage, destruction, condemnation or loss of title to payment of the cost of such restoration, either on completion or as the work progresses. If the Net Proceeds are not sufficient to pay in full the cost of the restoration and other funds are not available for such purpose, the City will pay from the Repair and Replacement Reserve Fund or the General Reserve Fund so much of the cost as may be in excess of such Net Proceeds. Any balance of Net Proceeds remaining after payment of the cost of restoration will be deposited in the Repair and Replacement Reserve Fund.

Financial Records and Statements. The City will keep proper books of records and accounts, in which full and correct entries will be made in accordance with generally accepted accounting principles, of all of its business and affairs. The City will cause an audit of its records and accounts to be made by an independent certified public accountant at the end of each Fiscal Year.

Arbitrage and Tax Covenants. The City has covenanted that it will comply throughout the term of the 2012 Bonds with the requirements of Section 148 of the Code applicable to them, including the rebate and reporting requirements of Section 148(f), and that the City will not take or omit to take any action that would cause interest on any of the 2012 Bonds to be or to become includable in the gross income of the Owners for purposes of federal income taxation.

#### **Events of Default**

Each of the following events is an Event of Default under the Indenture:

- (1) Payment of any interest on any Bond or Parity Indebtedness is not made when due and payable;
- (2) Payment of the principal of or premium, if any, on any Bond or Parity Indebtedness is not made when due and payable;

(3) Subject to certain rights of the City to cure such defaults as set forth in the Master Indenture, default in the observance or performance of any other covenant, condition or agreement on the part of the City under the Master Indenture, any Supplemental Indenture, in the Bonds or any document under which Parity Indebtedness has been issued; or

(4) Appointment by a court of competent jurisdiction of a receiver for all or any substantial part of the Revenues and other funds of the City pledged pursuant to the Master Indenture, or the filing by the City of any petition for reorganization of the City or rearrangement or readjustment of the obligations of the City under provisions of any applicable bankruptcy or insolvency law.

### **Remedies; Rights of Bondholders**

Upon the occurrence and continuation of an event of default under the Indenture, the Trustee may, and if requested by the Owners of not less than 25% in aggregate principal amount of Bonds and Parity Indebtedness then Outstanding will, by notice to the City, declare the entire unpaid principal of, Accreted Value of and interest on the Bonds and Parity Indebtedness due and payable. Upon any such declaration the City will pay to the Owners the entire unpaid principal of and accrued interest on the Bonds and Parity Indebtedness, but only from the Net Revenues and the other funds specifically pledged in the Indenture for such purpose.

Upon the occurrence and continuation of an event of default under the Indenture the Trustee may pursue any available remedy, at law or in equity, to enforce the payment of the principal of, Accreted Value of, premium, if any, and interest on the Bonds and Parity Indebtedness, to enforce any covenant or condition under the Indenture or to remedy any event of default.

Upon the occurrence and continuation of an event of default under the Indenture, if requested to do so by the Owners of at least 25% in aggregate principal amount of Bonds and Parity Indebtedness then Outstanding and if indemnified as provided in the Indenture, the Trustee will exercise such of the rights and powers conferred by the Indenture as the Trustee, upon being advised by counsel, deems most effective to enforce and protect the interests of the Owners.

Anything in the Indenture to the contrary notwithstanding the Owners of a majority in aggregate principal amount of Bonds and Parity Indebtedness then Outstanding will have the right, upon providing satisfactory security and indemnity to the Trustee, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture.

No Owner of any Bonds or Parity Indebtedness will have any right to institute any suit action or proceeding in equity or at law for the enforcement of the Indenture or any remedy under the Indenture or the Bonds except as expressly provided in the Indenture.

### **Waiver of Events of Default**

The Trustee will waive any event of default under the Indenture and its consequences and rescind any declaration of acceleration upon the written request of the Owners of a majority in aggregate principal amount of all Outstanding Bonds and Parity Indebtedness. If any event of default with respect to the Bonds and Parity Indebtedness has been waived as provided in the Master Indenture, the Trustee will promptly give written notice of the waiver to the City and by first class mail, postage prepaid, to all Owners of Outstanding Bonds and Parity Indebtedness if the Owners had previously been given notice of the event of default. No waiver, rescission and annulment will extend to or affect any subsequent event of default or impair any right, power or remedy available under the Master Indenture.

### **Discharge of Indebtedness**

If (1) all Bonds and Parity Indebtedness secured by the Indenture have become due and payable or irrevocable instructions to redeem the Bonds and Parity Indebtedness or to pay them at maturity have been given by the City to the Trustee and (2) the Trustee holds cash or noncallable Government Obligations or Government

Certificates the principal of, Accreted Value of, and the interest on which at maturity will be sufficient (i) to redeem in accordance with the relevant section of the Indenture all Bonds and Parity Indebtedness that have been called for redemption on the date set for such redemption, (ii) to pay at maturity all Bonds and Parity Indebtedness not irrevocably called for redemption, (iii) to pay interest accruing on all Bonds and Parity Indebtedness until their redemption or payment at maturity, and (iv) to pay to the Trustee its reasonable fees and expenses, including the costs and expenses of cancelling and discharging the Indenture, the Trustee will cancel and discharge the Indenture, and assign and deliver to the City any property at the time subject to the Indenture that may then be in its possession, except funds or securities in which such funds are invested which are held by the Trustee for the payment of principal of, Accreted Value of, or premium, if any, or interest on the Bonds and Parity Indebtedness.

Bonds and Parity Indebtedness will be deemed paid and no longer Outstanding for the purposes of the Indenture when there has been deposited with the Trustee cash or noncallable Government Obligations or Government Certificates the principal of, Accreted Value of, and interest on which will be sufficient to pay or redeem such Bonds and Parity Indebtedness and to pay interest on them to their payment or redemption date (whether on or before the date of their maturity or their redemption date), however, that if such Bonds and Parity Indebtedness are to be redeemed before their maturity, notice of the redemption must have been duly given or irrevocable instructions to redeem such Bonds and Parity Indebtedness must have been given to the Trustee.

### **Modification or Amendment of the Indenture**

The City and the Trustee may, without consent of, or notice to, any of the Owners, enter into an agreement or agreements supplemental to the Indenture for any one or more of the following purposes:

- (1) To add to the covenants and agreements of the City contained in the Master Indenture and any Supplemental Indentures other covenants and agreements, and to surrender any right or power in the Master Indenture and any Supplemental Indentures reserved to or conferred upon the City;
- (2) To cure any ambiguity, to supply any omission or to cure, correct or supplement any defect or inconsistent provisions contained in the Master Indenture or any Supplemental Indenture;
- (3) To grant to the Trustee for the benefit of the Owners additional rights, remedies, powers or authority;
- (4) To subject to the Master Indenture and the Supplemental Indentures additional collateral;
- (5) To modify the Master Indenture, any Supplemental Indenture, or the Bonds or Parity Indebtedness to permit qualification under the Trust Indenture Act of 1939 or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;
- (6) To provide for uncertificated Bonds or Parity Indebtedness;
- (7) To evidence the succession of a new Trustee or Paying Agent or the appointment by the Trustee or the City of a Co Trustee or a Co Paying Agent and to specify the rights and obligations of such Co Trustee or Co Paying Agent;
- (8) To make any change (including but not limited to a change to reflect any amendment to the Code or interpretations of it by the United States Department of the Treasury or the Internal Revenue Service) that in the opinion of the Trustee does not materially adversely affect the rights of any Owner of any Bonds or Parity Indebtedness;
- (9) To make any modifications or changes necessary or appropriate to issue an additional Series of Bonds or any Parity Indebtedness; or
- (10) To make any modifications or changes necessary or appropriate to permit Bonds of any Series or Parity Indebtedness to be secured by a credit or liquidity facility or to accommodate the issuance of Bonds or Parity



Indebtedness bearing variable interest rates, including the addition of provisions for the appointment of tender agents and similar parties and the specification of the duties and powers of such parties that in the opinion of the Trustee does not materially adversely affect the rights of any Owner of any Bonds or Parity Indebtedness.

Any other modification or alteration of the Master Indenture and any Supplemental Indenture or the rights and obligations of the City or of the Owners of the Bonds or Parity Indebtedness may be made by the City and the Trustee with the consent of (1) the Owners of a majority in aggregate principal amount of the Bonds and Parity Indebtedness then Outstanding; or (2) in case less than all of the Bonds and Parity Indebtedness then Outstanding are affected by the modifications or amendments, the Owners of a majority in aggregate principal amount of the Bonds and Parity Indebtedness so affected then Outstanding. However, without the consent of each Owner affected, no modification or alteration may (i) extend the maturity of the principal of, or interest on, any Bond or Parity Indebtedness, (ii) reduce the principal amount of, or rate of interest on, any Bond or Parity Indebtedness, (iii) effect a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (iv) reduce the percentage of the principal amount of the Bonds or Parity Indebtedness required for consent to such modification or alteration, (v) if applicable, impair the exclusion of interest on any Bonds or Parity Indebtedness from gross income for purposes of federal income taxation, (vi) eliminate or extend the mandatory redemption date of any Bonds or Parity Indebtedness or reduce the redemption price of Bonds or Parity Indebtedness, (vii) create a lien ranking prior to or on a parity with the lien of the Master Indenture or (viii) deprive any Owner of the lien created by the Master Indenture on such property.

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**WATER UTILITY FUND FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2010 AND 2011**

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# Water Utility Fund of the City of Norfolk, Virginia

Financial and Compliance Report  
Year Ended June 30, 2011

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KPMG LLP  
Suite 1900  
440 Monticello Avenue  
Norfolk, VA 23510

## Independent Auditors' Report

The Honorable Members of the City Council  
Water Utility Fund of the City Norfolk, Virginia:

We have audited the accompanying statement of net assets of the Water Utility Fund of the City of Norfolk, Virginia (the Fund), as of June 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the management of the City of Norfolk. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns* (Specifications), issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and Specifications require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1 to the financial statements, the accompanying financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the City of Norfolk, Virginia, the changes in its financial position or its cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Water Utility Fund of the City of Norfolk, Virginia as of June 30, 2011 and 2010, and changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The Fund has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined is necessary to supplement, although not be a part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2011 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



Our audits were made for the purpose of forming an opinion on the financial statements of the Fund, taken as a whole. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

KPMG LLP

December 13, 2011



Water Utility Fund of the City of Norfolk, Virginia  
Statements of Net Assets  
June 30, 2011 and 2010

	2011	2010
<b>ASSETS</b>		
Current assets:		
Cash and short term investments (Note 2)	\$ 23,874,446	\$ 32,855,827
Unrestricted short term investments (Note 2)	13,263,144	-
Receivables:		
Accounts (net) (Note 3)	6,652,303	8,680,574
Unbilled accounts (Note 4)	7,707,220	5,899,822
Accrued investment income	4,120	3,242
Inventories	1,419,063	1,539,030
Restricted cash held in escrow (Note 2)	246,313	126,638
Restricted short term investments (Note 2):		
Restricted investment held with fiscal agent	10,369,965	9,246,492
Reserve funds	17,504,604	14,735,202
Investment restricted for construction	32,834,522	-
Total current assets	113,875,700	73,086,827
Capital assets (Note 5):		
Non-depreciable assets	35,070,601	36,630,843
Depreciable assets	580,884,524	561,637,712
Accumulated depreciation and amortization	(167,222,416)	(155,720,259)
Total noncurrent assets	448,732,709	442,548,296
Total assets	562,608,409	515,635,123
<b>LIABILITIES</b>		
Current liabilities:		
Vouchers payable	1,209,790	987,465
Vouchers payable for CIP projects	3,635,806	2,222,432
Contract retainage	435,885	475,890
Accrued interest	90,666	161,252
Accrued payroll	510,836	280,507
Due to General Fund and other City funds	1,335,003	534,574
Payable to employees' retirement system	2,770,254	2,170,730
Compensated absences	729,300	664,254
Current portion of bonds payable (Note 6)	13,343,267	12,697,993
Accrued revenue bond interest payable	2,839,254	2,598,695
Other liabilities	175,661	862,105
Total current liabilities	27,075,722	23,655,897
Noncurrent liabilities:		
General obligation bonds payable (Note 6)	1,759,117	3,759,419
Revenue bonds payable (Note 6)	329,244,547	291,435,604
Liability for other postemployment benefits (OPEB) (Note 12)	1,199,565	830,437
Compensated absences	366,812	433,910
Total noncurrent liabilities	332,570,041	296,459,370
Total liabilities	359,645,763	320,115,267
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	154,341,182	147,763,612
Restricted	11,000,000	11,000,000
Unrestricted	37,621,464	36,756,244
	\$ 202,962,646	\$ 195,519,856

See Notes to Financial Statements

Water Utility Fund of the City of Norfolk, Virginia

Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended June 30, 2011 and 2010

	2011	2010
Operating revenues:		
Charges for services	\$ 80,573,611	\$78,982,990
Miscellaneous	2,936,138	3,161,097
Total operating revenues	83,509,749	82,144,087
Operating expenses:		
Personnel services	14,703,327	14,284,882
Plant operations	6,493,701	5,896,843
Chemicals	3,524,658	3,761,744
Provision for bad debts	429,970	301,294
Depreciation and amortization	11,915,059	11,494,781
Retirement contribution	2,770,254	2,170,730
OPEB expense	369,128	364,437
Administrative expenses	2,263,435	1,563,029
Other	9,224,888	8,935,390
Total operating expenses	51,694,420	48,773,130
Operating income	31,815,329	33,370,957
Nonoperating revenues (expenses):		
Interest income, net of interest capitalized	227,695	325,933
Intergovernmental Revenues	85,261	-
Interest expense and fiscal charges	(16,157,923)	(15,543,012)
Gain (Loss) on sale or disposal of assets	(157,224)	2,842,616
Total nonoperating expenses, net	(16,002,191)	(12,374,463)
Net income before contributions and transfers	15,813,138	20,996,494
Capital contributions	129,652	366,363
Transfers out	(8,500,000)	(11,360,000)
Change in net assets	7,442,790	10,002,857
Total net assets - beginning	195,519,856	185,516,999
Total net assets - end	\$ 202,962,646	\$195,519,856

See Notes to Financial Statements

Water Utility Fund of the City of Norfolk, Virginia

Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 83,300,652	\$ 80,761,692
Payments to suppliers	(9,676,067)	(9,563,472)
Payments to employees	(16,645,780)	(15,881,607)
Other payments	(12,174,767)	(11,437,058)
Net cash provided by operating activities	44,804,038	43,879,555
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Internal activity, payments from (to) other funds	800,429	(2,835,069)
Transfers out	(8,500,000)	(11,360,000)
Other nonoperating revenue	85,261	-
Net cash used in noncapital financing activities	(7,614,310)	(14,195,069)
<b>CASH FLOWS FROM CAPITAL AND RELATING FINANCING ACTIVITIES:</b>		
Proceeds from sale of debt	47,415,000	-
Proceeds from sale of Fixed Assets	-	2,860,000
Capital contributions	129,652	366,363
Purchases of capital assets	(16,883,327)	(16,278,575)
Principal paid on capital debt	(12,697,993)	(12,232,578)
Interest paid and bond service charges	(14,251,042)	(15,149,860)
Net cash provided by (used in) capital and related financing activities	3,712,290	(40,434,650)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of investments	54,286,514	57,350,804
Purchase of investments	(104,277,055)	(30,278,737)
Purchase of certificates of deposit	-	(13,000,000)
Interest and dividends	226,817	328,799
Net cash provided by (used in) investing activities	(49,763,724)	14,400,866
Net increase (decrease) in cash and cash equivalents	(8,861,706)	3,650,702
Cash and cash equivalents - beginning of year	32,982,465	29,331,763
Cash and cash equivalents - end of year	\$ 24,120,759	\$ 32,982,465

(Continued)

Water Utility Fund of the City of Norfolk, Virginia

Statements of Cash Flows (Continued)

Years Ended June 30, 2011 and 2010

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

Operating income	\$ 31,815,329	\$ 33,370,957
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization expense	11,915,059	11,494,781
Provision for bad debt	429,970	301,294
Change in assets and liabilities:		
Accounts receivable (net), billed and unbilled	(209,097)	(1,382,395)
Inventories	119,967	88,164
Vouchers payable	222,325	6,951
Accrued payroll	827,801	574,005
Other liabilities	(317,316)	(574,202)
Net cash provided by operating activities	<u>\$ 44,804,038</u>	<u>\$ 43,879,555</u>

Reconciliation of cash and short term investments to the

Statement of Net Assets:

Cash and short term investments	\$ 23,874,446	\$ 32,855,827
Restricted cash held in escrow	246,313	126,638
Total cash and short term investments per Statement of Net Assets	<u>\$ 24,120,759</u>	<u>\$ 32,982,465</u>

Noncash investing, capital and financing activities:

Gain (loss) on sale or disposal of capital assets	\$ (157,224)	\$ 2,842,616
Acquisition of capital assets through change in contract retainage	<u>\$ (40,005)</u>	<u>\$ (318,182)</u>
Acquisition of capital assets through change in vouchers payable	<u>\$ 1,413,374</u>	<u>\$ 127,530</u>
Capitalized interest	<u>\$ 1,160,204</u>	<u>\$ 1,195,740</u>

See Notes to Financial Statements

Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

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Note 1. Summary of Significant Accounting Policies

The Water Utility Fund (the "Fund") was established at the direction of Norfolk City Council as an enterprise fund on July 1, 1979. The Fund accounts for the provision of water services to City of Norfolk (the "City") residents, municipal customers and others outside the City. Activities necessary to provide water services, including operations, maintenance, financing and related debt service, and billing and collection, are accounted for in the Fund. Although separate financial statements have been presented for the Fund, it is also included in the City of Norfolk's Comprehensive Annual Financial Report as a major Enterprise Fund.

A summary of the Fund's significant accounting policies is as follows:

Basis of accounting: The financial statements are presented on the accrual-basis of accounting, wherein revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the related liabilities are incurred. The Fund adopted Statement No. 20 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. Accordingly, the Fund has elected not to apply Statements and Interpretations issued by the Financial Accounting Standards Board after November 30, 1989.

Deposits and Investments: The Fund's cash and short-term investments include cash on hand, demand deposits, and short-term investments with original maturities of one year or less from the date of acquisition.

Investments of the Fund are stated at fair value. Short-term investments are recorded at cost, which approximates fair value. The fair value of the State Treasurer's Local Government Investment Pool (LGIP) is the same as the value of the pool shares. The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The external investment pool is administered by the Treasury Board of Virginia. Other investments are stated at their fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the fiscal year. Investments that do not have an established market are reported at estimated fair value, primarily net asset value determined based on the fair value of the underlying securities. These investments are reported in the accompanying financial statements as cash and short-term investments, unless the original investment period exceeded one year, in which case they are reported as investments.

Accounts receivable: Accounts receivable are receivables due at the end of the fiscal year which have not been collected by year-end, net of allowance for doubtful accounts. The Fund determines past due status of individual water account receivables based on contractual terms and generally does not charge interest on past-due amounts. The Fund estimates its allowance for doubtful accounts based on a combination of factors, including the Fund's historical loss experience and any anticipated effects related to current economic conditions, as well as management's knowledge of the current composition of water receivables. Accounts that management believes to be ultimately not collectible are written off upon such determination. Unbilled accounts, net, are estimated at each fiscal year-end based on water usage by customers for whom billings have not yet been processed.

Inventories: Inventories are stated at the lower of cost (using the moving average method) or market.

## Notes to Financial Statements

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Restricted assets: Certain unspent proceeds of the revenue bonds as well as certain resources set aside for their repayment are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital assets: Capital assets are recorded at cost, less accumulated depreciation. Assets acquired prior to July 1977, for which historical cost records were not available, were appraised and valued at estimated historical cost by means of accepted price indexing methodology.

Depreciation: Depreciation is computed using the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	35 - 100
Transmission and distribution mains	40 - 100
Service meters and meter installation	35 - 50
Pumping and other water equipment	10 - 60
Furniture, fixtures and equipment	5 - 25
Intangible Assets	5 - 10

When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected as nonoperating revenue or expense.

Interest costs incurred on funds borrowed for construction projects are capitalized, net of interest earned on the temporary investment of the unexpended portion of those funds.

The Fund evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. A capital asset is generally considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. Impaired capital assets that will no longer be used by the Fund are reported at the lower of carrying value or fair value. Impairment losses on capital assets that will continue to be used by the Fund are measured using the method that best reflects the diminished service utility of the capital asset. Any insurance recoveries received as a result of impairment events or changes in circumstances resulting in the impairment of a capital asset are netted against the impairment loss.

Compensated absences: It is the Fund's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation leave is fully vested when earned by Fund employees. Sick leave does not vest for Fund employees; however, upon retirement, Fund employees receive credit for each day of accumulated sick leave toward their pension benefit. There is no liability for unpaid accrued sick leave service since the Fund does not pay when the employee separates from service.

Net assets: Net assets in the financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grants, contributions, laws and regulations of other governments or imposed by law through state statute.

Operating and nonoperating revenues: The Fund reports as operating revenues all charges for services generated through service fees and certain other miscellaneous revenues. Other revenues, including interest revenue and

Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

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grants, are reported as nonoperating. When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first and then unrestricted resources as they are needed.

General allocations: The General Fund of the City provides administrative services to the Fund, which totaled \$2,789,935 and \$2,064,197 for the fiscal years ended June 30, 2011 and 2010, respectively. Charges for these services are treated as expenses by the Fund. In addition the Fund recorded, as other expenses, payments to the General Fund in lieu of taxes of \$2,710,608 for the fiscal years ended June 30, 2011 and 2010.

Bond discount/premium: Discount and premium on bonds are amortized, using the effective-interest method, over the life of the debt and is included in interest expense.

Deferred gain (loss) on advance refunding: Gain (loss) on advance refunding is amortized, using the effective-interest method, over the shorter of the life of the refunded bonds or the life of the new bonds.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Cash and Investments

At June 30, 2011 and 2010, the Fund's cash and investments consist of the following:

	2011	2010
Investment in LGIP	\$ 11,000,010	\$ 18,504,273
Other investments	62,972,235	12,981,694
Certificates of deposit	-	22,000,000
Cash	24,120,749	3,478,192
	<u>\$ 98,092,994</u>	<u>\$ 56,964,159</u>
Cash and short term investments	\$ 23,874,446	\$ 32,855,827
Restricted cash held in escrow	246,313	126,638
Restricted short term investments held with fiscal agent	10,369,965	9,246,492
Unrestricted short term investments	13,263,144	-
Reserve funds	17,504,604	14,735,202
Investment restricted for construction	32,834,522	-
	<u>\$ 98,092,994</u>	<u>\$ 56,964,159</u>

Deposits: All cash of the Fund is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

The Fund's restricted assets on the statement of net assets include \$0 and \$11,000,000 of certificates of deposits at June 30, 2011 and 2010. These deposits have an original maturity of one year or less from the date of acquisition and therefore are classified as restricted short-term investments.

Investments: Statutes authorize the Fund to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development ("World Bank") and Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard and Poor's or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool ("LGIP"), certain mutual funds, corporate notes, asset-backed securities, and savings accounts or time deposits.

The Fund has no formal policy regarding credit risk, interest rate risk, concentration of credit risk, custodial credit risk, or foreign investment risk.

At June 30, 2011 and 2010, the Fund had \$11,000,010 and \$18,504,273 deposited, respectively, in the LGIP which carries a Standard and Poor's rating of AAAM and is included in cash and short-term investments and reserve funds.

The Fund's investments for the years ended June 30, 2011 and 2010, other than in LGIP, are categorized below to give an indication of the level of interest rate risk for each investment type by the entity at year-end.

Investment Type	Fiscal Year 2011		Fiscal Year 2010	
	Fair Value		Fair Value	
	Less than 1 year		Less than 1 year	
SNAP Money Market Mutual Funds	\$	46,097,666	\$	-
US Agency Notes		6,504,604		3,735,202
PFM Funds Government Series		10,369,965		9,246,492
	\$	62,972,235	\$	12,981,694

The Fund's rated debt investments, other than in LGIP, as of June 30, 2011 and 2010 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Investment Type	Fiscal Year 2011		
	AAA	AAAM	Total
Money Market Mutual Fund			
SNAP Money Market Mutual Funds	\$ -	\$ 46,097,666	\$ 46,097,666
PFM Funds Government Series	-	10,369,965	10,369,965
US Agency Notes	6,504,604	-	6,504,604
	\$ 6,504,604	\$ 56,467,631	\$ 62,972,235

Investment Type	Fiscal Year 2010		
	AAA	AAAM	Total
Money Market Mutual Fund			
SNAP Money Market Mutual Funds	\$ -	\$ -	\$ -
PFM Funds Government Series	-	9,246,492	9,246,492
US Agency Notes	3,735,202	-	3,735,202
	\$ 3,735,202	\$ 9,246,492	\$ 12,981,694



Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

The Fund has combined amounts restricted for capital projects and amounts for which the nature of the transaction generated a related liability with amounts available for general operating use in the financial statements for the Fund. These amounts are not available to meet obligations arising from the operating activities of the Fund.

A summary of the liabilities payable from restricted assets at June 30, 2011 and 2010 is as follows:

	2011	2010
Accrued revenue bond interest payable	<u>\$ 2,839,254</u>	<u>\$ 2,598,695</u>

Certain cash and investments of the Fund are combined with other City monies for investment purposes. These amounts were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. Reference should be made to the Comprehensive Annual Financial Report of the City for further cash and investment disclosures.

Note 3. Accounts Receivable

Accounts receivable at June 30, 2011 and 2010 is comprised of the following:

	2011	2010
Governmental	\$ 766,085	\$ 2,585,981
Residential	2,907,543	2,761,497
Refuse disposal fees	3,297,228	3,172,769
Commercial	1,052,717	1,059,578
Utility taxes	705,442	699,839
Industrial	156,523	177,482
Other	986,368	1,063,735
	<u>9,871,906</u>	<u>11,520,881</u>
Less allowance for uncollectible accounts	<u>(3,219,603)</u>	<u>(2,840,307)</u>
	<u>\$ 6,652,303</u>	<u>\$ 8,680,574</u>

Utility taxes and refuse disposal fees receivable are remitted to the City's General Fund when collected.

Note 4. Unbilled Accounts Receivable

At June 30, 2011 and 2010, the Fund recognized \$7,707,220 and \$5,899,822 as unbilled accounts receivable, respectively. These amounts were billed in July 2011 and July 2010, respectively.

Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

Note 5. Capital Assets

Capital assets at June 30, 2011 and 2010 are comprised of the following:

	Balance June 30, 2010	Additions	Retirements	Balance June 30, 2011
Nondepreciable assets:				
Land	\$ 10,239,496	\$ 369,500	\$ -	\$ 10,608,996
Intangible assets	2,304,237	-	-	2,304,237
Construction in progress	24,087,110	16,702,058	(18,631,800)	22,157,368
Total nondepreciable assets	36,630,843	17,071,558	(18,631,800)	35,070,601
Depreciable & amortized assets:				
Land improvements	7,040,090	12,836,523	-	19,876,613
Buildings	178,822,669	-	(305,401)	178,517,268
Equipment	370,504,783	6,997,092	(286,436)	377,215,439
Intangible assets	5,270,170	5,034	-	5,275,204
Total depreciable & amortized assets	561,637,712	19,838,649	(591,837)	580,884,524
Less accumulated depreciation for				
Land improvements	(3,097,046)	(236,510)	-	(3,333,556)
Buildings	(39,106,479)	(2,944,725)	146,981	(41,904,223)
Equipment	(111,619,316)	(7,803,002)	265,921	(119,156,397)
Intangible assets	(1,897,418)	(930,822)	-	(2,828,240)
Total accumulated depreciation	(155,720,259)	(11,915,059)	412,902	(167,222,416)
Depreciable assets, net	405,917,453	7,923,590	(178,935)	413,662,108
Total capital assets, net	\$ 442,548,296	\$ 24,995,148	\$ (18,810,735)	\$ 448,732,709

	Restated per GASB 51 Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Nondepreciable assets:				
Land	\$ 10,200,187	\$ 39,309	\$ -	\$ 10,239,496
Intangible assets	2,304,237	-	-	2,304,237
Construction in progress	21,844,293	14,918,287	(12,675,470)	24,087,110
Total nondepreciable assets	34,348,717	14,957,596	(12,675,470)	36,630,843
Depreciable assets:				
Land improvements	7,101,351	-	(61,261)	7,040,090
Buildings	178,822,669	-	-	178,822,669
Equipment	357,772,506	13,202,617	(470,340)	370,504,783
Intangible assets	4,678,260	591,910	-	5,270,170
Total depreciable & amortized assets	548,374,786	13,794,527	(531,601)	561,637,712
Less accumulated depreciation for				
Land improvements	(3,027,863)	(130,445)	61,262	(3,097,046)
Buildings	(36,154,555)	(2,951,924)	-	(39,106,479)
Equipment	(104,266,045)	(7,817,496)	464,225	(111,619,316)
Intangible assets	(1,302,502)	(594,916)	-	(1,897,418)
Total accumulated depreciation	(144,750,965)	(11,494,781)	525,487	(155,720,259)
Depreciable assets, net	403,623,821	2,299,746	(6,114)	405,917,453
Total capital assets, net	\$ 437,972,538	\$ 17,257,342	\$ (12,681,584)	\$ 442,548,296

Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

The Fund capitalized \$1,290,620 of interest expense and \$130,416 of interest income for the fiscal year ended June 30, 2011. For the fiscal year ended June 30, 2010 the Fund capitalized \$1,209,737 of interest expense and \$13,997 of interest income. The total interest cost was \$17,448,543 and \$16,752,749 for the fiscal year ended June 30, 2011 and 2010, respectively.

Note 6. Long-Term Obligations

General obligation bonds: A summary of general obligation bond transactions for the fiscal year ended June 30, 2011 and 2010 follows:

	2011	2010
General obligation bonds outstanding at July 1	\$ 6,719,682	\$ 9,532,260
Bonds retired/refunded	(2,822,993)	(2,812,578)
Bonds outstanding at June 30	3,896,689	6,719,682
Unamortized discount/premium, net	(79,305)	(137,270)
General obligation bonds outstanding at June 30, adjusted for unamortized discount/premium	3,817,384	6,582,412
Less current portion	(2,058,267)	(2,822,993)
	<u>\$ 1,759,117</u>	<u>\$ 3,759,419</u>

Water utility general obligation bonds outstanding are comprised of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2011	2010
Series 2002 Refunding	2/13/2002	47,200,000	2.00 - 5.00%	\$ 730,014	\$ 1,465,281
Series 2002B Refunding	11/1/2002	39,890,000	5.00 - 5.25%	773,372	807,316
Series 2004 Refunding	3/16/2004	96,395,000	2.00 - 5.00%	-	746,269
Series 2009 Refunding	5/21/2009	21,895,000	3.00 - 5.00%	2,393,303	3,700,816
Total Water Utility General Obligation Bonds				<u>\$ 3,896,689</u>	<u>\$ 6,719,682</u>

A summary of the requirements to amortize general obligation bonds outstanding at June 30, 2011 is as follows:

Year Ending June 30,	Principal	Interest
2012	\$ 2,058,267	\$ 163,900
2013	739,589	82,154
2014	551,047	41,165
2015	547,786	13,695
	<u>\$ 3,896,689</u>	<u>\$ 300,914</u>

Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

General obligation bonds are payable first from the revenue of the specific funds in which they are recorded; however, the full faith and credit of the City is pledged to the payment of the principal and interest on general obligation bonds.

Revenue bonds: A summary of revenue bond transactions for the fiscal year ended June 30, 2011 and 2010 follows:

	2011	2010
Revenue bonds outstanding at July 1	\$ 303,355,000	\$ 312,775,000
Bonds retired	(9,875,000)	(9,420,000)
Bonds issued	47,415,000	-
Bonds outstanding at June 30	340,895,000	303,355,000
Unamortized discount/premium, net	(365,453)	(2,044,396)
Revenue bonds outstanding at June 30, adjusted for unamortized discount/premium	340,529,547	301,310,604
Less current portion	(11,285,000)	(9,875,000)
	<u>\$ 329,244,547</u>	<u>\$ 291,435,604</u>

Water utility revenue bonds outstanding are comprised of the following individual issues:

Bond Issue/Purpose	Dated	Issue Amount	Interest Rate	2011	2010
Series 1993 Water Revenue	11/1/1993	\$ 68,430,000	2.80 - 5.375%	\$ 42,375,000	\$ 44,575,000
Series 1995 Water Revenue	8/15/1995	115,680,000	4.75 - 7.00%	81,135,000	84,425,000
Series 1998 Water Revenue and Refunding	11/1/1998	84,605,000	4.00 - 5.125%	63,950,000	66,095,000
Series 2001 Water Revenue and Refunding	10/15/2001	35,000,000	4.00 - 5.00%	28,865,000	29,660,000
Series 2005 Water Revenue and Refunding	3/23/2005	22,810,000	3.50 - 5.00%	20,695,000	21,150,000
Series 2008 Water Revenue	4/23/2008	58,415,000	3.00 - 5.00%	56,460,000	57,450,000
Series 2010 Water Revenue	9/23/2010	47,415,000	2.00 - 4.50%	47,415,000	-
Total Water Utility Revenue Bonds				<u>\$ 340,895,000</u>	<u>\$ 303,355,000</u>

Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

A summary of the requirements to amortize water revenue bonds outstanding at June 30, 2011 is as follows:

Year Ending June 30,	Principal	Interest
2012	\$ 11,285,000	\$ 16,773,159
2013	11,825,000	16,227,660
2014	12,400,000	15,652,373
2015	13,025,000	15,034,060
2016	13,690,000	14,365,657
2017-2021	80,180,000	60,079,259
2022-2026	94,890,000	36,341,084
2027-2031	48,605,000	17,483,284
2032-2036	32,465,000	8,552,447
2037-2041	22,530,000	1,986,487
	<u>\$ 340,895,000</u>	<u>\$ 202,495,470</u>

Water revenue bonds are payable solely from the revenue of the Fund. The most restrictive covenant of the water revenue bonds requires that the Fund's net revenue to be not less than the greater of (i) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service for the fiscal year or (ii) 1.0 times the funding requirements for transfers from the Revenue Fund to the Operating Fund, the Bond Fund, the Parity Debt Service Fund, the Debt Service Revenue Fund, the Subordinated Debt Service Fund and the Repair and Replacement Reserve Fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted cash held with fiscal agent on the balance sheet because their use is limited by applicable bond covenants.

Bonds authorized and unissued as of June 30, 2011 and 2010 were \$51,720,626 and \$51,425,000, respectively.

**Note 7. Retirement Obligations**

The Fund contributes to the Employees' Retirement System of the City of Norfolk (the "System"), a single-employer noncontributory defined benefit plan, which is accounted for as a separate Pension Trust Fund. Reference should be made to the Comprehensive Annual Financial Report of the System for a further description of the plan. Retirement expense was \$2,770,254 and \$2,170,730 for the years ended June 30, 2011 and 2010, respectively.

**Note 8. Significant Customers**

Billed and unbilled accounts receivable includes \$5,516,678 and \$6,015,240 due from the City of Virginia Beach and \$771,725 and \$671,303 due from the United States Navy for water sales at June 30, 2011 and 2010, respectively. Net charges for services include \$28,702,893 and \$26,742,250 for water sales to the City of Virginia Beach and \$8,836,936 and \$8,107,730 for the United States Navy for the fiscal years ended June 30, 2011 and 2010.

Notes to Financial Statements

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Note 9. Commitments and Contingencies

Commitments for completion of capital projects authorized at June 30, 2011 and 2010 were approximately \$23,275,000 and \$14,082,000, respectively.

Amounts received under a certain contract are subject to audit and adjustment by third-party experts and the contracting party. Differences identified, including amounts already collected, may constitute a liability of the Fund. The difference, if any, between revenue earned and recorded cannot be determined at this time.

Note 10. Litigation

From time-to-time the Fund and the City are defendants in a number of lawsuits. Although it is not possible to determine the final outcome of these matters, management and the City Attorney are of the opinion that the ultimate liability will not be material and will not have a significant effect on the Fund's financial condition.

Note 11. Risk Management

The Fund is exposed to various risks of loss related to: theft of, damage to, and destruction of assets; injuries to employees; general liability; automobile liability; crime and employee dishonesty; professional liability; and directors and officers' liability. The Fund's coverage is provided through the City's combination of purchased insurance policies and self-insurance plans.

Note 12. Other Postemployment Benefits (OPEB)

The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with GAAP wherein governments report on an accrual basis, benefit costs related to the period in which benefits are earned rather than to the period of benefit distribution. The ARC represents a level of funding that, if paid on an on-going basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The ARC as computed for the City is allocated to the Fund based on payroll.

The Fund and the City use the pay as you go method to calculate the OPEB liability for June 30, 2011 as the City has not funded a trust for the OPEB liability. Using the most recent OPEB plan valuation date of July 1, 2010, the following table shows the components of the Fund's annual OPEB costs projected for the current fiscal year, the amount contributed to the Plan and the changes in the net OPEB obligation:

Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

	2011	2010
Net beginning OPEB obligation	\$ 830,437	\$ 466,000
Annual required contributions	488,671	569,341
Interest on net OPEB obligation	38,315	21,288
Adjustment to ARC	(35,579)	(16,834)
Annual OPEB cost	491,407	573,795
Less: contributions made	122,279	209,358
Increase in net OPEB obligation	369,128	364,437
Net ending OPEB obligation	\$ 1,199,565	\$ 830,437

The total unfunded actuarial accrued liability (UAAL) for 2011 and 2010 is \$3,702,557 and \$3,545,026, respectively, and is allocated to the Fund on the same basis as the ARC. The allocation is based on covered payroll and does not purport to represent the OPEB liability of the Fund on a stand-alone basis. Reference should be made to the Comprehensive Annual Financial Report of the City of Norfolk for further information.

Note 13. Accounting Pronouncements Issued But Not Yet Implemented

The GASB has issued several pronouncements that may impact future financial presentations. Management has not determined what, if any, impact implementation of the following statements will have on the Fund.

- GASB Statement 60: Accounting and Reporting for Service Concession Arrangements. GASB 60 addresses issues related to accounting for, financial reporting and disclosure requirements of certain service concession arrangements, which are a type of public-private partnership. The provisions of GASB 60 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 62: Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 from the following sources: FASB statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA, so long as it does not contradict or conflict with GASB pronouncements. This statement also supersedes Statement No. 20: Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 63: Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position. GASB 63 provides financial reporting guidance for deferred outflows and inflows of resources. These terms are defined as the consumption or acquisition of net assets by the government that is applicable to a future reporting period respectively. The provisions of GASB 62 are effective for fiscal years beginning after December 15, 2011.
- GASB Statement 64: Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53, GASB 64 will clarify whether an effective hedging relationship will continue after the replacement of a swap counterparty or swap counterparty's credit support provider. The statement will also set forth

Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Notes to Financial Statements

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criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of GASB 64 are effective for fiscal years beginning after June 15, 2011.



Water Utility Fund of the City of Norfolk, Virginia  
June 30, 2011

Supplementary Schedule

Debt Capacity Information - Revenue Bonds Debt Service Coverage  
Last Ten Fiscal Years

Fiscal Year	Revenue		Operating Expenses		Income		Debt Service		
	Available for Debt Service (1)		Less Depreciation & Amortization (2)		Available for Debt Service		Principal	Interest	Total Coverage
2001	\$ 64,459,300	\$	29,732,203	\$	34,727,097	\$	4,680,000	\$ 13,411,636	\$ 18,091,636 1.92
2002	63,681,665		29,021,459		34,660,206		4,890,000	14,090,180	18,980,180 1.83
2003	67,760,029		30,867,286		36,892,743		5,700,000	14,600,283	20,300,283 1.82
2004	64,366,942		36,623,654		27,743,288		5,955,000	14,336,043	20,291,043 1.37
2005	69,183,154		37,584,692		31,598,462		6,250,000	14,041,059	20,291,059 1.56
2006	78,788,158		37,086,776		41,701,382		6,580,000	14,827,960	21,407,960 1.95
2007	76,013,563		35,050,694		40,962,869		7,310,000	14,379,821	21,689,821 1.89
2008	78,730,024		39,559,202		39,170,822		7,665,000	14,022,200	21,687,200 1.81
2009	78,020,552		40,807,627		37,212,925		8,050,000	16,411,343	24,461,343 1.52
2010	82,470,020		37,278,349		45,191,671		9,420,000	15,929,680	25,349,680 1.78
2011	83,737,444		39,779,361		43,958,083		9,875,000	16,527,844	26,402,844 1.66

1. Includes operating revenue plus interest income, net of interest capitalized.

2. Includes operating expenses less depreciation and amortization.

(See accompanying independent auditor's report)

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**PROPOSED FORM OF OPINION OF BOND COUNSEL**

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April 4, 2012

Mayor and Council of the  
City of Norfolk, Virginia  
Norfolk, Virginia

**\$176,925,000**  
**City of Norfolk, Virginia**  
**Water Revenue Refunding Bonds,**  
**Series 2012**

Ladies and Gentlemen:

We have served as Bond Counsel in connection with the issuance and sale by the City of Norfolk, Virginia (the "City"), of its \$176,925,000 Water Revenue Refunding Bonds, Series 2012 (the "2012 Bonds"), dated the date hereof. The Council of the City authorized the issuance of the 2012 Bonds by Ordinance No. 44,570 enacted on February 28, 2012, pursuant to the terms and conditions of a Master Indenture of Trust dated as of November 1, 1993, as previously supplemented and amended (the "Master Indenture"), between U.S. Bank National Association, as successor trustee to SunTrust Bank and Crestar Bank by merger (the "Trustee"), and the City, and as further supplemented and amended by a Ninth Supplemental Indenture of Trust dated as of April 1, 2012 (the "Ninth Supplemental Indenture"), each between the Trustee and the City. The Master Indenture and the Ninth Supplemental Indenture are referred to collectively as the "Indenture." Unless otherwise defined, each capitalized term used in this opinion has the meaning given it in the Indenture.

We refer you to the 2012 Bonds and the Indenture for a description of the purposes for which the 2012 Bonds are issued, their terms and the security for them.

In connection with this opinion, we have examined the Constitution of Virginia and the applicable laws of both the United States and the Commonwealth of Virginia, including without limitation the Internal Revenue Code of 1986, as amended (the "Code"), and the Public Finance Act of 1991, Chapter 26, Title 15.2, Code of Virginia of 1950, as amended, and copies of proceedings and other documents relating to the issuance and sale of the 2012 Bonds by the City as we have deemed necessary to render this opinion.

As to questions of fact material to this opinion, we have relied upon (a) representations of the City, including, without limitation, representations as to the use of proceeds of the 2012 Bonds, (b) certifications of public officials furnished to us, and (c) representations and certifications contained in certificates of the City and others delivered at closing, without undertaking to verify them by independent investigation. In addition, without undertaking to verify the same by independent investigation, we have relied on computations provided to us by Grant Thornton LLP, Minneapolis, Minnesota, the mathematical accuracy of which was verified by them relating to the yield on investment in the escrow fund established with a portion of the proceeds of the 2012 Bonds and the yield on the 2012 Bonds.

We have assumed that all signatures on documents, certificates, and instruments examined by us are genuine, all documents, certificates, and instruments submitted to us as originals are authentic, and all documents, certificates, and instruments submitted to us as copies conform to the originals. In addition, we have assumed that all documents, certificates, and instruments relating to this financing have been duly authorized, executed, and delivered by all parties to them other than the City, and we have further assumed the due organization, existence, and powers of all parties other than the City.

Based on the foregoing, in our opinion, under current law:

1. The City has the requisite authority and power to enter into the Indenture to issue and sell the 2012 Bonds, and to apply the proceeds from the issuance and sale of the 2012 Bonds as set forth in the Ninth Supplemental Indenture. Neither the faith and credit of the Commonwealth of Virginia nor the faith and credit of the City or any other political subdivision of the Commonwealth of Virginia are pledged to the payment of the principal of or premium, if any, or interest on the 2012 Bonds.

2. The 2012 Bonds have been duly authorized, executed, and delivered in accordance with the Constitution and statutes of the Commonwealth of Virginia and the Indenture and constitute valid and binding limited obligations of the City, payable solely from the Net Revenues and other property pledged for such purpose under the Indenture for the security of the 2012 Bonds on a parity with the Outstanding Bonds, any Additional Bonds to be issued in the future under the Indenture and any Parity Indebtedness.

3. The Indenture has been duly authorized, executed, and delivered by the City, constitutes a valid and binding obligation of the City, and is enforceable against the City in accordance with its terms. The Ninth Supplemental Indenture complies in all respects with the requirements of the Master Indenture.

4. The Master Indenture requires the City to fix, revise, and collect rates, fees, and other charges for the use of and for the services furnished by the System so that Net Revenues will be at least sufficient to pay when due, among other things, Operating Expenses and the principal of and interest on the Outstanding Bonds and the 2012 Bonds.

5. Additional Bonds may be issued and Parity Indebtedness incurred from time to time under the conditions, limitations, and restrictions set forth in the Master Indenture, and will

be secured equally and ratably as to the pledge of Net Revenues with the Outstanding Bonds and the 2012 Bonds.

6. The obligations of the City under the 2012 Bonds and the Indenture are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium, and similar laws, now or hereafter in effect, relating to or affecting the enforcement of creditors' rights generally. Such obligations are also subject to usual equitable principles, which may limit the specific enforcement of certain remedies but which do not affect the validity of the obligations.

7. Interest on the 2012 Bonds, including any accrued "original issue discount" properly allocable to the owners of the 2012 Bonds, is (i) excludable from gross income for purposes of federal income taxation under Section 103 of the Code, (ii) not a specific item of tax preference for purposes of the federal alternative minimum income tax imposed on individuals and corporations. Interest on the 2012 Bonds must be included in adjusted current earnings for purposes of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes) under Section 56 of the Code. The "original issue discount" on any 2012 Bond is the excess of its stated redemption price at maturity over the initial offering price to the public at which price a substantial amount of the 2012 Bonds of the same maturity was sold. The "public" does not include bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. We express no opinion regarding other federal tax consequences arising with respect to the 2012 Bonds.

In delivering this opinion, we are (i) relying upon and assuming the accuracy of representations and certifications of representatives of the City as to facts material to the opinion, and (ii) assuming continuing compliance with the Covenants (as defined below) by the City, so that interest on the 2012 Bonds will remain excludable from gross income for federal income tax purposes. The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied after the issuance of the 2012 Bonds in order for interest on the 2012 Bonds to be and remain excludable from gross income for purposes of federal income taxation. These requirements include, by way of example and not limitation, restrictions on the use, expenditure and investment of the proceeds of the 2012 Bonds and the use of the property financed or refinanced by the 2012 Bonds, limitations on the source of the payment of and the security for the 2012 Bonds, and the obligation to rebate certain excess earnings on the gross proceeds of the 2012 Bonds to the United States Treasury. The City's tax certificate for the 2012 Bonds (the "Tax Certificate") contains covenants (the "Covenants") under which the City has agreed to comply with such requirements. Failure by the City to comply with the Covenants could cause interest on the 2012 Bonds to become includable in gross income for federal income tax purposes retroactive to their date of issue. In the event of noncompliance with the Covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the 2012 Bonds from becoming includible in gross income for federal income tax purposes.

We have no responsibility to monitor compliance with the Covenants after the date of issue of the 2012 Bonds.

Certain requirements and procedures contained, incorporated or referred to in the Tax Certificate, including the Covenants, may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such document.

8. Interest on the 2012 Bonds is excludable from the gross income of the owners thereof for purposes of income taxation by the Commonwealth of Virginia. We express no opinion regarding (i) other Virginia tax consequences arising with respect to the 2012 Bonds or (ii) any consequences arising with respect to the 2012 Bonds under the tax laws of any state or local jurisdiction other than the Commonwealth of Virginia.

Our services as Bond Counsel have been limited to rendering the foregoing opinion based on our review of such legal proceedings as we deem necessary to approve the validity of the 2012 Bonds and the income tax status of the interest on them. We express no opinion as to the accuracy or completeness of any information that may have been relied upon by any owner of the 2012 Bonds in making a decision to purchase the 2012 Bonds.

Very truly yours,

[To be signed: MCGUIREWOODS LLP]



**CERTAIN INFORMATION CONCERNING THE CITY**

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## THE CITY OF NORFOLK

### INTRODUCTION

The City of Norfolk was established as a town in 1682, as a borough in 1736 and incorporated as a city in 1845. The City lies at the mouth of the James and Elizabeth Rivers and the Chesapeake Bay, and is adjacent to the Atlantic Ocean and the cities of Virginia Beach, Portsmouth and Chesapeake.

**Table D-1**  
**City of Norfolk, Virginia**  
**Area of City**

<u>Year</u>	<u>Square Miles</u>
1950.....	37.19
1960.....	61.85
1970.....	61.85
1980.....	65.75
1990.....	65.98
2000.....	65.98
2012.....	65.98

### CITY GOVERNMENT

Norfolk is an independent, full-service City with sole local government taxing power within its boundaries. It derives its governing authority from a charter (the "Charter"), originally adopted by the General Assembly of Virginia (The "General Assembly") in 1918, which authorizes a council-manager form of government. The City Council exercises all of the governmental powers conferred upon the City. Having sought and gained approval from the U.S. Justice Department and the General Assembly, the City gave its citizens the right to elect their Mayor directly, effective May 2006. Previously the City's Mayor had been chosen by the City Council from among its members. This change added an eighth member to the City Council, with the Mayor elected at large, and retained the then-current seven wards with two members elected from City-wide super wards. The City Council elects a Vice Mayor from among its members. Among the City officials appointed by the City Council is the City Manager, the administrative head of the municipal government. The City Manager carries out the City's policies, directs business procedures and appoints, with the power to remove, the heads of departments and other employees of the City except those otherwise specifically covered by statutory provisions. The City Council also appoints certain boards, commissions and authorities of the City.

#### Certain Elected Officials

The City's current elected officials include:

#### **Paul D. Fraim, Mayor**

In May 2006 Mayor Fraim became the City's first popularly elected mayor in nine decades. Mayor Fraim is a 26-year incumbent on City Council, and was first elected Mayor by his peers in 1994. He is the president of the law firm Fraim & Fiorella, P.C., and was first elected to City Council in 1986. He has a Bachelor of Arts degree from Virginia Military Institute, Lexington, Virginia, and a Masters in Education degree from the University of Virginia, Charlottesville, Virginia. He received his law degree from the University of Richmond, Richmond, Virginia. Mayor Fraim is an active member of the Virginia State Bar, the Virginia Bar Association and the Norfolk-Portsmouth Bar Association and has held a number of leadership positions in these organizations.

**Anthony L. Burfoot, Vice Mayor**

Mr. Burfoot, representing Ward 3, was first elected to City Council in July 2002. He is employed by New York Life as a licensed Life and Annuities Health Agent. Additionally, he is an adjunct faculty member at Tidewater Community College. He received a Bachelor of Science degree in Public Administration and a Master's degree in Educational and Administrative Supervision from Virginia State University, Petersburg Virginia. He is involved in many civic and business activities.

**Andrew A. Protogyrou, Council Member**

Mr. Protogyrou, representing Ward 1, was first elected to City Council on May 4, 2010. Mr. Protogyrou is an attorney and a member of Protogyrou & Rigney, P.L.C. He has a Bachelor of Arts degree from Virginia Military Institute, Lexington, Virginia, and he received his law degree from the University of Richmond, Richmond, Virginia. Mr. Protogyrou is an active in many local professional and civic organizations, where he has held a number of leadership positions.

**Paul R. Riddick, Council Member**

Mr. Riddick, representing Ward 4, was first elected to City Council in July 1992. He is the owner and operator of Riddick Funeral Service. He attended Norfolk State University, Norfolk, Virginia, and has an Associates in Art and Sciences degree in Funeral Service from John Tyler Community College, Chester, Virginia. Mr. Riddick is active in many local professional organizations.

**Thomas R. Smigiel, Council Member**

Mr. Smigiel, representing Ward 5, was first elected to City Council on May 4, 2010. He received a Bachelor of Science degree in Education from Old Dominion University, Norfolk, Virginia, and a Master's degree in School Administration from Cambridge College's Regional Center, Chesapeake, Virginia. He is currently an Assistant Principal at Lake Taylor High School in Norfolk. He is involved in many local professional and civic organizations, where he has held a number of leadership positions.

**Dr. Theresa W. Whibley, Council Member**

Dr. Whibley, representing Ward 2, was first elected to City Council in July 2006. She is an obstetrician and gynecologist in private practice at Woman Care Centers, PLC in Norfolk. Dr. Whibley is a graduate of Eastern Virginia Medical School, Jones Institute of Reproductive Medicine, Old Dominion University, and the College of William and Mary. Dr. Whibley is active in many local professional organizations.

**Angelia M. Williams, Council Member**

Ms. Williams, representing Super Ward 7, was first elected to City Council on November 2, 2010. She holds a current real estate license and is a realtor with Long & Foster Realtors. Ms. Williams received an Associate of Science degree in Business Administration from Tidewater Community College in 2004. She graduated from the University of Virginia's Sorensen Institute for Political Leadership in 2005 and from the Alpha School of Real Estate in 2008. She is currently working toward her Bachelor's degree in Business Administration and Political Science at Old Dominion University, Norfolk, Virginia. She is involved in many local professional and civic organizations, where she has held a number of leadership positions.

**Barclay C. Winn, Council Member**

Mr. Winn, representing Super Ward 6, was first elected to City Council in July 2000. He is the Chief Executive Officer of Winn Nursery of Virginia, Inc. He received a Bachelor of Science degree from North Carolina State University, Raleigh, North Carolina. Mr. Winn is active in many civic and business activities.

## **Certain Appointed Officials**

### **Marcus D. Jones, City Manager**

Marcus D. Jones returned to the City of Norfolk on February 1, 2011, to assume the post of City Manager. His responsibilities include the supervision of the administrative operations of the City including the preparation of its annual budget. Prior to returning to Norfolk, he served as Deputy Chief Administrative Officer for Finance & Administration for the City of Richmond, Virginia. Prior to serving in Richmond, Mr. Jones served as an Assistant City Manager and Director of Budget & Grants Management for the City of Norfolk from 2007 to 2009. In the prior decade, Mr. Jones served the Commonwealth as Governors Mark Warner and Jim Gilmore's, Deputy Secretary of Finance and Assistant Secretary of Finance, respectively. He earned his Bachelor's degree in Public Administration from James Madison University, Harrisonburg, Virginia, and a Masters degree in Public Administration from Virginia Commonwealth University, Richmond, Virginia.

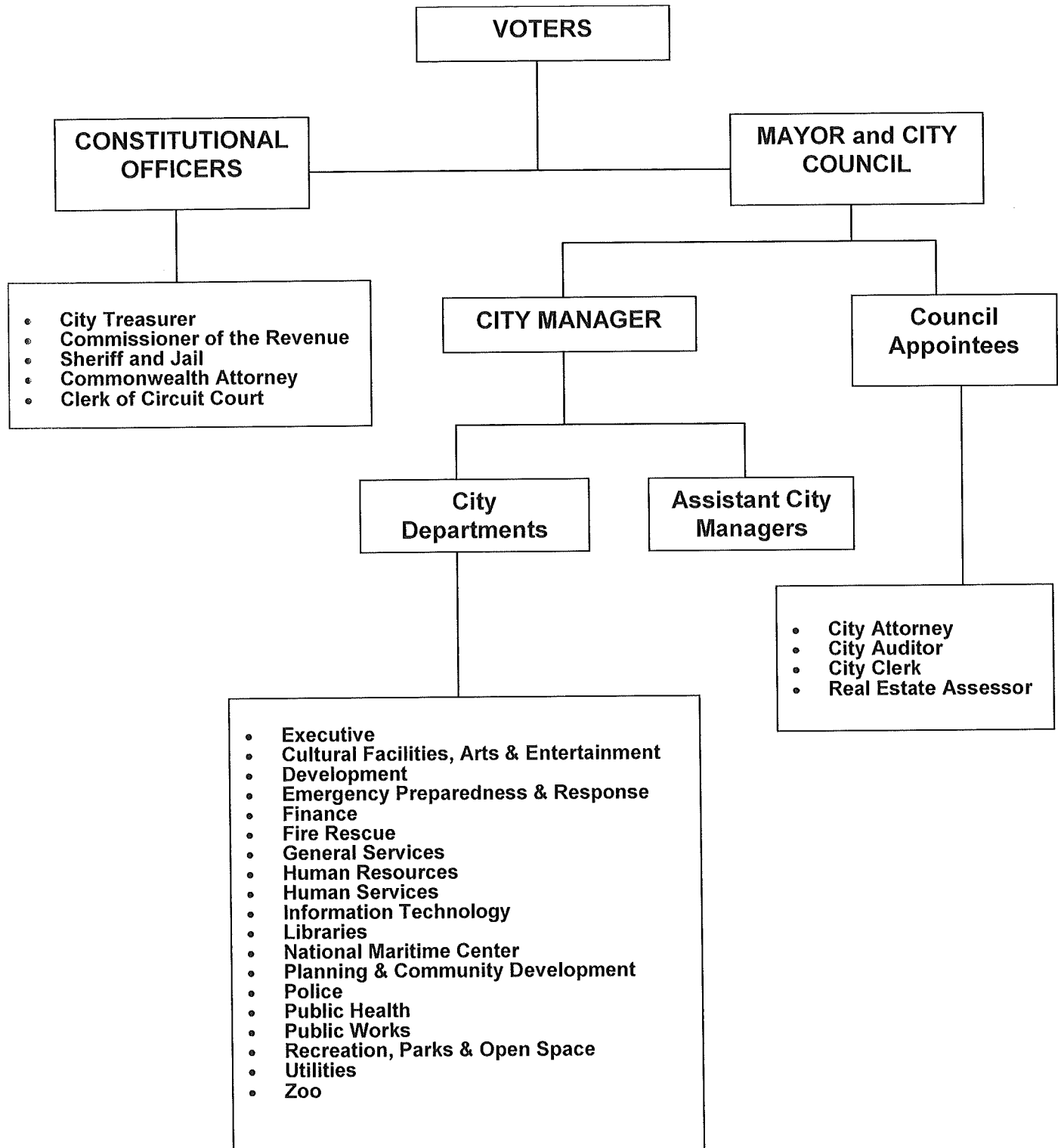
### **Shenette C. Felton, Acting Director of Finance**

Shenette C. Felton was appointed by City Council as Acting Director of Finance on May 9, 2011. At the direction of the City Manager, she is responsible for identifying strategic opportunities for the City in the policy areas of taxation, financial management and fiscal policy development. In addition, she is responsible for the administration of the financial affairs of the City which include cash management and investments, debt management, financial accounting and reporting, procurement, risk management and retiree benefits. Prior to her appointment as Acting Director of Finance, she served as Assistant Director of Finance & City Controller. Prior to joining the City, she was an audit manager for a public accounting firm. Ms. Felton earned a Bachelor of Business Administration degree, with honors, in Accounting from the School of Business at Howard University in the District of Columbia. She is a licensed Certified Public Accountant.

### **Bernard A. Pishko, City Attorney**

Bernard A. Pishko was first appointed by City Council as City Attorney in November 1997. He previously served as Deputy City Attorney from 1989 to 1997 and as an Assistant City Attorney from 1984 to 1989. He has practiced law since 1982. The City Attorney is also general counsel for the Norfolk School Board, Norfolk Recreational Facilities Authority, Norfolk Community Services Board, Hospital Authority of Norfolk, Norfolk Municipal Employees' Retirement System, Norfolk Electoral Board, Civil Service Commission and The Chrysler Museum of Art. Mr. Pishko is a member of many professional associations and community organizations. He received his undergraduate degree from Brown University, Providence, Rhode Island, a Masters degree in Business Administration from the College of William and Mary, Williamsburg, Virginia, and a law degree from the Marshall-Wythe School of Law, Williamsburg, Virginia.

## City Organization



In Virginia, cities and counties are not overlapping units of government. Each city or county is a distinct political entity providing services for the population within its respective jurisdiction. The City of Norfolk provides a comprehensive range of public services characteristic of its form of government under Virginia law. These services are designed to provide an environment within which the educational, physical, social and cultural needs of its citizens are met. These general governmental services include police protection, fire and paramedical services, public health and social services, planning and zoning management, code enforcement, storm water management, street maintenance, traffic control, parks and cemeteries operation and maintenance, recreation and library services, economic development, solid waste disposal and general administrative services. In addition, water and wastewater utilities and parking facilities services are provided under an enterprise fund concept with user-charges set by City Council.

### **Other Governmental Entities**

#### *School Board of the City of Norfolk*

The seven members of the School Board of the City of Norfolk (the "School Board") are appointed by the City Council. The School Board is a corporate body and in its corporate capacity is vested with all of the duties, obligations and responsibilities imposed upon school boards by law. The City Council is required to appropriate annually to the School Board the amount needed for the support of the public schools in maintaining educational programs which meet the standards of quality prescribed by law. Categorical aid from the Commonwealth of Virginia and the federal government designated for educational purposes is included in the City's General Fund budgetary revenue. This categorical aid, plus monies derived from local sources, provides the funds for the major share of the School Board's operations. On an ongoing basis, the City also issues debt to finance needed capital projects of the school system.

The School Board presently operates 35 elementary schools, nine middle schools, five high schools and several auxiliary schools, including alternative, magnet and specialty programs. For Fiscal Year 2011, the School Board's expenditures for education totaled \$370,542,917.

#### *Norfolk Airport Authority*

The Norfolk Airport Authority, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport Fund and an Investment Fund. The Airport Fund was established by the Authority to account for the operations of the Norfolk International Airport (the "Airport"). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment Fund was established by the Authority to provide for certain airport capital improvements.

The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments.

The Authority's Commissioners are appointed by City Council, but the Commission designates its own management and has oversight responsibility for its own fiscal matters. The City does not provide funds for the operations of the Authority, and pursuant to Section 144(q) of the City Charter, the Authority is required to submit its annual budget to the City Council for the purposes of information only. The City of Norfolk has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

#### *Hampton Roads Regional Jail Authority*

The Hampton Roads Regional Jail Authority ("HRRJA") is a regional organization which includes the cities of Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary

government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Code of Virginia, as amended, and is governed by a twelve member Board of Directors, consisting of three representatives appointed by each of the member cities. The budgeting and financing of HRRJA are subject to the approval of the Board of Directors, with each individual having a single vote. HRRJA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The regional jail facility (the "Jail"), which opened in March 1998, consists of approximately 385,518 square feet of building area, including three housing building units, a support building and a central plant. The Jail holds 875 inmates of which 250 are designated to the City. The City is responsible for 28.57% of the total operating cost less the revenue derived from the Virginia Compensation Board and the per diem reimbursement from the Commonwealth for the housing of state inmates.

#### *The Southeastern Public Service Authority of Virginia*

The Southeastern Public Service Authority ("SPSA") is a joint venture of the cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse.

SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by an eight-member Board of Directors, consisting of a representative appointed by each of the member cities and counties. Budgeting and financing of SPSA is subject to the approval of the Board of Directors, with each individual having a single vote. The Authority is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

The regional system includes solid waste transfer stations in each of the member jurisdictions, a landfill and rolling stock and ancillary facilities.

#### *Transportation District Commission*

Hampton Roads Transit (the "District") was created on October 1, 1999, with the consolidation of the Tidewater Regional Transit and Peninsula Transportation District Commission. It is believed to be the first voluntary merger of public transit agencies in the nation.

The District is governed by the Transportation District Commission of Hampton Roads and is a body corporate and politic of the Commonwealth. The District was formed as a joint exercise of governmental power in accordance with the provisions of Chapter 45 of Title 15.2 of the Code of Virginia.

The District provides public transportation facilities and services within cities of Norfolk, Chesapeake, Hampton, Newport News, Portsmouth, Suffolk and Virginia Beach.



**Table D-2**  
**City of Norfolk, Virginia**  
**Contributions to Hampton Roads Transportation District Commission**  
**2008 - 2012**

<u>Fiscal Year</u>	<u>Contributions</u>
2008	\$7,047,624
2009	7,666,622
2010	7,666,622
2011	5,981,085
2012	6,634,958

Sources: Approved Operating Budgets, Fiscal Years 2008 through 2012.

*Hospital Authority of Norfolk*

The Hospital Authority of Norfolk ("HAN"), which has a nine-member Board of Commissioners appointed by City Council, is a tax-exempt, not-for-profit political subdivision of the Commonwealth created pursuant to an Agreement of Transfer dated July 1, 1988. HAN operates Lake Taylor Hospital as a long-term care facility licensed by the Virginia State Health Department to provide a continuum of patient care ranging from sub-acute hospital services to skilled nursing care.

*Norfolk Redevelopment and Housing Authority*

The Norfolk Redevelopment and Housing Authority ("NRHA"), a political subdivision of the Commonwealth, was created by the City on July 30, 1940, under the provisions of the United States Housing Act of 1937. The NRHA provides subsidized public housing and administers redevelopment and conservation efforts within the City in accordance with State and federal legislation. The seven members of the Board of Commissioners are appointed by City Council. The NRHA is responsible, through a contract with the City, for the administration of such activities as community development, and urban renewal. The NRHA develops its operating budget without approval from the City Council and executes contracts on its own behalf. However, the City does not exercise a significant degree of oversight responsibility for the NRHA as it is responsible for designating its own management, developing its own operating budget and executing major contracts on its own behalf. The NRHA is responsible for its own fiscal matters as it maintains its own books of account, is audited annually by independent accountants it engages, and has authority over earnings, deficits and monies other than City contract funds. The City contracts with NRHA to complete specific projects, generally capital improvement projects.

**ECONOMIC AND DEMOGRAPHIC FACTORS**

**Population**

As reflected in Table D-3 and D-4 below, from 2002 to 2011 the City's population grew 3.6%. The City is the second most populous city in Virginia, as shown in Table D-4.

**Table D-3**  
**Population Trend Comparisons**  
**2002-2011**

<b>Year</b>	<b>Norfolk<sup>(1)</sup></b>	<b>Hampton Roads MSA<sup>(1)(2)</sup></b>	<b>Virginia<sup>(3)</sup></b>	<b>U.S.<sup>(3)</sup></b>
2002	235,405	1,574,500	7,276,785	287,726,647
2003	236,550	1,583,900	7,363,300	290,210,914
2004	238,650	1,605,900	7,454,688	292,892,127
2005	239,396	1,615,415	7,546,725	295,560,549
2006	239,355	1,619,600	7,628,347	298,362,973
2007	241,941	1,623,624	7,698,775	301,290,332
2008	242,983	1,632,970	7,795,424	304,059,724
2009	243,957	1,644,005	7,882,590	307,006,550
2010	242,803	1,648,136	8,001,024	308,745,538
2011	243,985	1,661,279	8,096,604	311,591,917

Sources: U.S. Census Bureau and the Weldon Cooper Center for Public Service, University of Virginia (the "Weldon Cooper Center").

Notes: (1) Norfolk and Hampton Roads MSA population estimates are from the Weldon Cooper Center, except for the 2010 population estimates which are from the U.S. Census Bureau.  
 (2) The Hampton Roads MSA is the Virginia portion only.  
 (3) U.S. and Virginia population estimates are from the U.S. Census Bureau.

**Table D-4**  
**Five Most Populous Cities in Virginia**

<b>City</b>	<b>2010 Census Population</b>	<b>2011 Population Estimate</b>
Virginia Beach	437,994	441,246
Norfolk	242,803	243,985
Chesapeake	222,209	225,898
Richmond	204,219	206,238
Newport News	180,719	181,027

Source: U.S. Census Bureau and the Weldon Cooper Center.

Table D-5 provides an annual comparison of per capita personal income since 2000.

**Table D-5**  
**City of Norfolk, Virginia**  
**Per Capita Personal Income Comparisons**  
**2000-2009**

Year	City	Hampton Roads		U.S.
		MSA	State	
2000	23,472	26,762	31,640	30,318
2001	25,541	28,523	33,278	31,145
2002	26,149	29,505	33,753	31,461
2003	27,720	31,053	35,001	32,271
2004	29,152	32,464	36,902	33,881
2005	31,156	34,107	38,966	35,424
2006	33,234	36,319	41,362	37,698
2007	35,132	38,387	43,437	39,461
2008	36,834	39,790	44,676	40,674
2009	36,838	39,518	44,057	39,635

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System.

The age distribution of the City's population is presented in Table D-6.

**Table D-6**  
**City of Norfolk, Virginia**  
**City Population Distribution by Age**  
**1960-2010**

Year	Population	Under 20	20-64	65 or Older
1960	305,872	39.8%	54.5%	5.7%
1970	307,951	35.4	57.8	6.8
1980	266,979	30.7	60.1	9.2
1990	261,250	28.1	61.4	10.5
2000	234,403	27.3	61.5	11.2
2010	242,803	25.3	65.3	9.4

Source: U.S. Census Bureau.

## Housing and Construction Availability

Table D-7 provides an annual breakdown of residential building permits over the past 10 fiscal years.

**Table D-7**  
**City of Norfolk, Virginia**  
**Residential Construction**  
**Fiscal Years Ended June 30, 2002 - 2011**

<b>Fiscal Year</b>	<b>Building Permits</b>	<b>Number of Units</b>	<b>Value (in thousands)</b>
2002	290	462	\$44,498
2003	287	609	61,790
2004	506	766	83,525
2005	560	1,191	204,391
2006	531	1,058	133,053
2007	389	491	68,476
2008	277	815	101,212
2009	209	535	35,878
2010	191	621	58,729
2011	121	479	37,298

Source: Permit Tracking System, Department of Planning, City of Norfolk, Virginia.

Table D-8 presents annual nonresidential construction permits, which includes commercial buildings, public buildings, schools, public utility buildings and miscellaneous structures, over the past 10 fiscal years.

**Table D-8**  
**City of Norfolk, Virginia**  
**Nonresidential Construction**  
**Fiscal Years Ended June 30, 2002 - 2011**

<b>Fiscal Year</b>	<b>Building Permits</b>	<b>Value (in thousands)</b>
2002	53	\$51,451
2003	35	24,084
2004	59	134,197
2005	70	70,677
2006	60	165,989
2007	55	81,396
2008	35	102,714
2009	38	138,131
2010	35	104,922
2011	27	40,073

Source: Permit Tracking System, Department of Planning, City of Norfolk, Virginia.

## **Employment**

Businesses in the City provide residents with employment opportunities in a variety of industries of which services, government and trade are the most significant.

The unemployment rate for the City is illustrated in Table D-9.

**Table D-9  
City of Norfolk, Virginia  
Unemployment Rates  
2002 - 2011**

<b>Year</b>	<b>Norfolk</b>	<b>Hampton Roads MSA</b>	<b>Virginia</b>	<b>U.S.</b>
2002	5.1%	4.1%	4.2%	5.8%
2003	5.3	4.2	4.1	6.0
2004	5.1	4.0	3.7	5.5
2005	5.0	3.9	3.5	5.1
2006	4.2	3.3	3.1	4.6
2007	4.1	3.2	3.0	4.6
2008	5.3	4.2	4.0	5.8
2009	8.7	7.0	6.8	9.3
2010	9.2	7.4	6.9	9.6
2011	8.7	7.0	6.2	8.9

Source: U.S. Bureau of Labor Statistics.

**Table D-10  
City of Norfolk, Virginia  
Civilian Employment and Average Weekly Gross Wages  
3<sup>rd</sup> Quarter, 2011**

	<b>Number of Establishments</b>	<b>Number of Employees</b>	<b>Average Weekly Wage</b>	<b>Percentage of Employment</b>
Construction	395	4,418	\$840	3.22%
Manufacturing	138	6,602	1,026	4.81
Trade, Transportation & Utilities	1,261	25,557	893	18.63
Information	103	2,495	1,093	1.82
Financial Activities	597	8,240	977	6.01
Professional & Business Services	1,011	20,975	1,170	15.29
Education and Health Services	799	37,007	826	26.98
Leisure and Hospitality	610	13,466	357	9.82
Other Services	556	4,104	572	2.99
Public Administration	75	14,270	1,389	10.40
Natural Resources & Mining	3	12	808	0.01
<b>Total</b>	<b>5,548</b>	<b>137,146</b>		<b>100.00%</b>

Sources: U.S. Bureau of Labor Statistics. Virginia Employment Commission, Quarterly Census of Employment & Wages Program. Totals include non-disclosable data.

## **Economic Development**

Economic development initiatives are focused on the attraction, expansion and retention of businesses, neighborhood and community revitalization and commercial corridor development. Some of the City-led initiatives to stimulate commercial revitalization include: Tax Abatement Program, State Enterprise Zone, Federal Empowerment and HUB Zones, Small Area Aesthetic Matching Grant Program, Aesthetic Improvement Grant Pool, Pedestrian Commercial Overlay Zones, Tax and Grant Benefits, Concentrated Development Zone Incentives, public infrastructures, and amenities.

## **Downtown Development**

Downtown offers a mix of cultural attractions and entertainment for its citizens and tourists.

The current average vacancy rate for Downtown Class A office space is approximately 12.21%, as shown in Table D-11 below.

**Table D-11**  
**City of Norfolk, Virginia**  
**Downtown Norfolk Vacancy**  
**January 2012**

<b>Class A</b>	<b>Rentable SF</b>	<b>Vacant SF</b>	<b>% Vacant</b>
150 West Main Street	225,498	38,142	15.65%
Crown Center	58,674	-	0.00
Dominion Tower	403,276	50,288	12.47
Main Street Tower	4,105	-	2.20
Norfolk Southern Tower	293,035	48,564	16.57
Wells Fargo Center	299,887	46,928	15.65
World Trade Center	366,106	35,868	9.80
<b>Total</b>	<b>1,833,476</b>	<b>223,895</b>	<b>12.21%</b>

Source: CoStar, January 2012.

Bank presence along Main Street includes Bank of America, BB&T, Monarch, Old Point National, PNC, SunTrust, TowneBank and Wells Fargo. Bank of Hampton Roads, Heritage, Southern Bank and several credit unions are also located downtown.

The Wells Fargo Center, a \$170 million dollar office, retail and residential development opened June 7, 2010, on Monticello Avenue adjacent to the Monticello Avenue light rail station as well as to MacArthur Center, Scope and Chrysler Hall. The Wells Fargo Center adds approximately 255,000 square feet of office space and 50,000 square feet of retail space to the downtown market. This City block development features a 23-story Class A office tower and 1,850 parking spaces in two garages built by the City. The project also includes Monticello Station, a 121-unit apartment development.

The construction of a new \$123.3 million dollar Consolidated Courts Complex, which broke ground in January 2012, is underway near City Hall adjacent to the Civic Plaza light rail station. This new complex will house the General District, Circuit, and Juvenile and Domestic Relations Courts, and is scheduled to be completed by Fall 2015.

Recently the City announced that the retail presence on Granby Street will be expanded with the introduction of Urban Outfitters, an eclectic national clothing chain that targets teens and young adults.

## **Residential Development**

Neighborhood revitalization is one of the City's core initiatives and part of the economic development plan. By increasing the diversity of housing opportunities, the City expects to increase the diversity of its citizenry and expand the tax base. The City's goal for neighborhood and commercial development is to provide an environment that will increase private sector investment, retail sales generation and corresponding municipal revenue generation, create a framework for targeted and coordinated public and private investment and build upon and coordinate with other ongoing community development initiatives.

Residential investment continues to grow throughout the City. The Belmont at Freemason, located downtown adjacent to a Tide light rail station, opened in September 2010. It contains 241 apartments in two buildings and a garage with 531 parking spaces at Brambleton and Bute Streets with an estimated value of \$45 million. Plans are underway to convert two historic buildings, the former Union Mission (renamed the Rockefeller) and the Savoy, into affordable work force apartments.

Residential development also continues to grow in areas beyond downtown Norfolk. The River House, a \$32 million, 194-unit luxury apartment community on Haven Creek at the Granby Street Bridge is complete. The River House will strengthen the Riverview commercial corridor and boost prospects for development of adjoining property in this vital area situated between two desirable and historic neighborhoods. 201 Twenty-One, a \$41 million, mixed-use 4-story structure in Ghent with 224 apartments and over 50,000 square feet of retail space, opened in September 2010. The District at ODU, a project with 307 apartments specifically targeted to students attending Old Dominion University, opened in August 2010. The 180-unit Meadowood Apartments, a \$21 million investment, opened in October 2011. SouthWind Apartments, a \$15 million development in Denby Park on a former trailer park, is now occupied. Additional investment along Newport Avenue includes Westport Commons, an \$80 million townhouse/condominium project. Three additional apartment projects that are in varying stages of development include Waters Edge in Campostella, with 246 units; The Green at Ghent, with 130 units; and Promenade Pointe in Roland Park, with 187 units.

The seven-mile stretch of beaches on the Chesapeake Bay known as Ocean View experienced redevelopment over the past decade. The East Beach section of Ocean View will have 700 housing units with prices ranging from \$350,000 to over \$1.5 million, with an average home sales price of \$733,507. A portion of the homes are currently occupied with the remainder of the properties planned for development. Lot sales total approximately \$47 million dollars representing nearly \$230,000,000 in home values and approximately \$2,553,000 in annual real estate taxes to the City. The East Beach community has been designated as the site of 2012 Homearama, which will be the third time it has been held there. A 157-unit condominium development to the south of East Beach, Pointe East at Harbor Walk, is being developed by Franciscus Homes.

Broad Creek is a \$200 million community near Norfolk State University with 600 mixed-income homes. In Broad Creek, the region's first mixed-use, mixed-income community, construction is complete on 400 rental units and 70 homes. Construction on Broad Creek Village, a mixed-use residential and retail development began during 2008, and is being followed by Broad Creek's final phase of 200 mixed-income residential units north of Princess Anne Road.

The City is also redeveloping the Fort Norfolk area, which is a 30-acre urban waterfront area linking downtown Norfolk to the region's medical complex and Ghent community. In the Fort Norfolk section of downtown Norfolk, the City's first retirement community, known as Harbor's Edge, opened in September 2006. Riverview Lofts, a project to convert a former industrial building into 81 condominiums, began construction in 2011. Fort Norfolk Plaza across Brambleton from the medical complex that includes Sentara Norfolk General Hospital and Eastern Virginia Medical School, is a \$70 million, 9-story medical office tower and parking garage that opened in August 2010.

## Arts and Culture

Norfolk offers a mix of cultural attractions and entertainment for its citizens and tourists. Norfolk's entertainment and theatre venues include the Attucks Theatre, the Harrison Opera House, Chrysler Museum, and the "Theater District" which includes Chrysler Hall, Jeanne and George Roper Theater, Wells Theatre and the NorVa.

Recent investments to the City's cultural attractions include the new Virginia Arts Festival headquarters, a new home for the Hurrah Players, and the recently opened Chrysler Museum Glass Art Studio. The Virginia Arts Festival moved into its new 18,000-square-foot building, the Clay and Jay Barr Education Center, on August 23, 2010. The building, which is located across the street from Chrysler Hall, houses year-round education outreach activities, a rehearsal and intimate performance space, as well as the Festival's administrative offices. Adjacent to the Education Center is the new home of the Hurrah Players, which features a 100-seat theater and two rehearsal halls. A new addition to Norfolk's Chrysler Museum is the new Chrysler Museum Glass Studio, which opened in November 2011. It is a state-of-the-art, 7,000 square foot facility which supports artists working in a variety of glassmaking processes, including blown glass, casting, fusing, flameworking, and cold working. Located adjacent to the museum, the facility is the only one of its kind in the Mid-Atlantic region, and spotlights the museum's extensive glass collection.

Significant improvements to the Virginia Zoological Park for the Trail of the Tiger exhibit have been completed, and design work has begun for a new \$4.25 million animal wellness center. The Zoo Animal Wellness Center will consist of an 8,000 square foot Veterinary Hospital and 3,000 square foot Nutrition Center. The hospital will provide state of the art surgical and treatment suites, laboratory and pharmacy. One wing of the hospital will be for housing animals that have just arrived at the Zoo and animals that may be sick. The surgical and treatment suites will have large viewing windows on the outside walls so visitors will be able to see treatment in progress. The project has an estimated completion date of September 2013.

Several new projects are underway in 2012. The new Slover Memorial Library, a new main public library, will consist of the interim Norfolk Main Library at the Seaboard Building, located at 235 East Plume Street, and a new adjoining building. A nationally recognized New Haven, Connecticut architectural firm, Newman Architects, is leading the creative team developing the new library. The City plans to combine the historic integrity of the Seaboard Building with a seamless expansion creating a state-of-the-art, highly efficient library complex. A \$20 million dollar gift from Frank Batten Sr., announced in 2008, allowed the City to accelerate the planning and construction of the downtown library by at least ten years. An additional \$20 million matching grant was announced in 2010, which combined with the City's original \$20 million brings the total project investment to over \$60 million. Construction on the new library could begin as early as 2012. A second project is the \$6 million expansion of the MacArthur Memorial, under construction in 2012. In the Wards Corner section of the City work has begun on a new \$8.5 million performing arts center for Norfolk Collegiate School. A virtual groundbreaking took place in December 2011 for the center, which will include a 425-seat theater, an on-site art gallery, classrooms, workshops, and practice studios.

Today, there are more than 350 public art programs that support thousands of artists' projects in government buildings, the airport, in libraries, in parks and in neighborhoods. Additional artwork is being displayed in the new light rail stations.

In 2006, a Public Arts Commission was established to develop policies for the creation of artwork that will create a unique image and sense of place for Norfolk. The City capital improvement budget allocates 1% of specified construction projects valued at over \$500,000 for the purpose of acquisition of artwork. The first two projects funded from the One Percent for Art funds were incorporated in the Town Point Park renovation which was completed in July 2009. The first was a photo-based tile mural along a new fence in Town Point Park that depicted the downtown waterfront through the years. The second was a stainless-steel mermaid sculpture perched atop a new fountain between the Half Moone Cruise and Celebration Center and Nauticus that commemorated the 10th anniversary of the mermaid as the City's brand image.



## **Transportation Initiatives**

The City's new light rail system, the Tide, began operation in August 2011, exceeding passenger count expectations. The Tide runs from the EVMC medical complex near Fort Norfolk to the Newtown Road/Virginia Beach city line. Construction on the Amtrak passenger rail line connecting Norfolk to Washington DC via Petersburg and Richmond is underway. Estimated annual ridership is 67,000. The intercity passenger rail will serve a multi-modal center located at Harbor Park, which includes a light rail station and will feature ferry service to Portsmouth. The initial phase will include construction of a \$3 million, 3,500 square foot train station to support the upcoming restoration of intercity passenger rail service to Norfolk by the end of 2012. The facility will link intercity passenger rail to the light rail and regional bus systems, ferry service, cruise ship facilities and provide direct interstate access.

In 2012 construction will begin on the Downtown Tunnel/Midtown Tunnel/MLK extension project. This \$1.9 billion project is planned to take place over the next five years and involves state-backed outreach for SWAM and disadvantaged businesses, as well as an on-the-job training program.

In Spring 2013 the \$170 million I-564 intermodal connector project will be underway to alleviate congestion and improve the level of service on City and naval station streets. The road repositioning will also reduce truck traffic on the adjacent roadways, in addition to being the first section in place for the proposed next project, Patriot's Crossing.

### **Cruise Norfolk**

The 80,000 square foot Half Moone Cruise & Celebration Center opened in spring 2007. The cruise terminal is located in the harbor between Town Point Park and Nauticus/Battleship Wisconsin. Norfolk is a homeport for Carnival ships, which provide regular service to Bermuda and the Bahamas. During the 2010 cruise season, 64,000 cruise ship passengers traveled from Norfolk with an estimated 45,000 passengers anticipated in 2011. It also serves as a special event venue, with its first trade show, the Commercial Marine Expo, held in June 2011. Targeting the commercial marine industry, more than 250 vendors exhibited everything from tugboat engines to life rafts, satellite communications gear to propellers.

### **Norfolk Airport Authority**

The Norfolk International Airport (the "Airport") is served by American, Continental, Delta, Southwest, United Express and US Airways. The Airport generates nearly 1,700 jobs and over \$135 million in direct economic impacts annually. In calendar year 2011, over 3.2 million passengers used the Airport, a 4.17% decrease from 2010. In addition, over 64 million pounds of cargo flowed through the Airport in calendar year 2011, a 1.81% increase over 2010. In Norfolk, service has remained stable over the past two years, with an average of 80 daily departures.

## **Hotel Development**

Norfolk has nearly 5,000 hotel rooms, including over 1,500 in the downtown area. Tourism and conventions employ over 6,600 workers in the City and generate \$23.4 million in state taxes and \$20.6 million in local tax revenue. Travelers to the City spend over \$640 million annually.

A \$73 million, 301 room, Westin hotel has been proposed to be built above a proposed new conference center at the corner of Granby and Main Streets. This 23-story building is expected to include residential condos above the hotel, as well as integrated parking.

## **Waterfront Recreation Investment**

Town Point Park, located in the downtown area along the Elizabeth River, brings thousands of visitors downtown annually and generates both tax and parking revenue for the City. Construction was completed on a \$11.5 million renovation in July 2009, the first renovation in its 25 year history.

Norfolk has been chosen as one of five ports to host OpSail in 2012. The 2012 event is part of the commemoration of the bicentennial of the War of 1812 and the birth of the "Star Spangled Banner." For the first time the U.S. Navy will participate in their own parade of sails and events throughout the region depicting the history of the U.S. Navy. Norfolk and the Port of Hampton Roads will host the OpSail flotilla from June 6-11, 2012, in conjunction with the City's annual Harborfest.

Norfolk boasts over 144 miles of shore where the Chesapeake Bay meets the Atlantic Ocean. Numerous marinas are all along Downtown's Elizabeth River, the Lafayette River, lakes, the Hampton Roads Harbor and the Chesapeake Bay. East Beach, located on the Chesapeake Bay, was named one of the top restored beaches in America in 2008 by the American Shore and Beach Preservation Association due in part to the investment of \$2.5 million dollars in beach erosion funds.

In December 2011 the City received five proposals from a request for proposals issued by Waterside Associates LLC for the redevelopment of Waterside.

### **Sports and Recreation**

Norfolk has several waterfronts with the Chesapeake Bay on its North boundary and two major rivers within its boundaries. The City has a public boat ramp in Willoughby Spit with access to the Chesapeake Bay, as well as the recently rehabilitated Haven Creek boat ramp with access to the Lafayette River. Three golf courses are also located within the City.

The Kroc Center, an \$80 million state of the art community center located in the Broad Creek community, broke ground in October 2011. Norfolk is the newest city to have a Kroc Center, which is a program of the Ray and Joan Kroc Foundation and the Salvation Army. The Colonel Samuel L. Slover Memorial Library, Norfolk's new main library located downtown, is slated to begin construction in early 2012. It will have the most technologically advanced programming available today, to be supported by an endowment from the Batten Foundation.

A 24,290 square foot community center located in Lamberts Point opened in February 2010. This community center is adventure-themed and features a 25-foot climbing wall. Lamberts Point is the City's first official "green" building with many environmentally friendly elements. The community center is seeking LEED (Leadership in Energy and Environmental Design) certification.

Grandy Village is currently undergoing a \$50 million transformation, which includes the construction of the now open Grandy Village Community and Education Center, an outdoor environmental and educational learning laboratory on the riverfront. It features a wetlands nature trail, canoe and kayak launch, and a wetlands pavilion overlooking the water. The new building meets U.S. Green Building Council LEED standards, and is open to all Norfolk residents.

The Skate Park at Northside Park is a professionally designed, 21,000 square feet skate plaza. The concrete facility integrates transitional and street style elements into one park. Designed to be one of the region's largest, tournament-style skate parks, it boasts one of the largest bowls in Hampton Roads with a 7' to 9' transition next to a mini half-pipe.

The Southside Aquatic Center, a \$7.7 million facility, broke ground in October 2011. The 20,000 square foot facility, located in Campostella, will feature a 25-yard, six-lane competition pool as well as two 1-meter diving boards, a two-story twisty tube slide, locker rooms, and instructional areas. There also will be a handicap-accessible plunge area.

The inaugural season of the Norfolk SharX, an indoor soccer league, began in November 2011. The Sharx team is one of three expansion teams in the Major Indoor Soccer League.

Norfolk is home to the Norfolk Tides, (a AAA minor league baseball team), the Norfolk Admirals (an AHL hockey team) and hosts Arena Racing USA on an indoor track. Old Dominion University began a football program in the fall of 2009, adding to the long-established football program at Norfolk State University.

## **Norfolk's Educational Institutions**

Available within the City are a wide variety of educational facilities including public elementary, middle and high schools, private and parochial schools, two universities, one college, one community college and a medical school.

### **Public Schools**

Norfolk public schools have a low pupil-teacher ratio with class sizes well below the national average. Norfolk offers innovative public school programs, which include Early Childhood Education, a unique, comprehensive program for three and four-year-olds and their parents located in the public housing community of Diggs Town, at the Park Place/Colonial Place Community Center and at Ocean Air Elementary.

Norfolk continues to invest in its public schools facilities. Facilities receiving renovations and new construction include Norview High School, Blair Middle School, Bay View Elementary, Granby High School, Taylor Elementary and the School of International Studies at Meadowbrook.

In January 2011, construction commenced on the Crossroads Pre-Kindergarten - 8<sup>th</sup> Grade School, which is designed to replace the existing elementary school, creating a more efficient footprint on the same 10-acre site. The new school features a three story academic wing, a media center, a multi-purpose room, a gymnasium and a student dining area with a performance platform. A dedicated portion of the facility will be used by the Parks and Recreation Department including access to many of the public portions of the building.

The City is home to the Governor's Magnet School for the Arts, Virginia's only magnet school for the arts, which offers classes in performing or visual arts to approximately 300 students from six cities and two counties. The school system also has a program for gifted science students that enables them to study at Eastern Virginia Medical School. Student population for the past five fiscal years is shown in Table D-12.

**Table D-12**  
**City of Norfolk, Virginia**  
**Public Schools Student Population**  
**Fiscal Years 2007-2011**

<b>Fiscal Year</b>	<b>September 30 Membership</b>	<b>Percent Change</b>
2007	33,593	-1.38%
2008	32,947	-1.92
2009	32,272	-2.05
2010	31,766	-1.57
2011	31,485	-0.85

Source: Virginia Department of Education.

### **Higher Education**

Norfolk is home to five institutions of higher learning: Old Dominion University, Norfolk State University, Virginia Wesleyan College, Tidewater Community College and Eastern Virginia Medical School. Old Dominion University ("ODU") is one of only 100 public research universities nationwide, with a full and part-time enrollment of over 22,000 students. Norfolk State University is Virginia's largest public, historically black university and the seventh largest in the nation. A \$17.6 million student center at Tidewater Community College's downtown campus opened in summer 2011.

A new \$80 million 100,000-square-foot education and research building at Eastern Virginia Medical School opened to fall classes in 2011. It includes an auditorium, classrooms, exam rooms, training rooms,

multidisciplinary labs and research space. The new building, which includes renovations to neighboring Lewis Hall, created space to increase medical student enrollment by 30% and physician assistant student enrollment by 60%.

### **Institutional Technology Parks**

Old Dominion University – University Village. ODU, in partnership with the City, the NRHA, and private developers, continues the expansion of a large scale, mixed-use redevelopment project. This redevelopment project, the University Village, will directly impact 75 acres (13 City blocks) and result in over \$260 million in private and public investments. The project includes student housing, retail, a convocation center, parking, research/office buildings, apartments and a hotel. The research park, named Innovation Research Park, is one of a few research parks in the country located on the campus of its research institution.

Norfolk State University – The Research and Innovations to Support Empowerment ("RISE") Center. The RISE Center, located on the campus of Norfolk State University, is designed to promote interaction between the university, the business sector and community and federal agencies in research and technology. The first phase of the Marie V. McDemmond Center for Applied Research houses classrooms, labs and offices for professors in areas such as materials research, engineering and computational science, as well as the office of research and technology.

### **Norfolk's Medical Institutions**

Within the City, there are five general, acute care and specialized hospitals including Sentara Norfolk General Hospital ("Sentara Norfolk General"), Sentara Leigh Hospital, Bon Secours DePaul Medical Center, Children's Hospital of The King's Daughters ("CHKD") and Lake Taylor Transitional Care Hospital ("Lake Taylor Transitional"). Sentara Norfolk General opened a \$100 million heart hospital in February 2006, a 112-bed, 254,000 square foot center. The heart hospital was the first step in Sentara's 2010 expansion plan for the medical complex. CHKD, the site of Virginia's only free-standing, full-service pediatric hospital is home to one of the nation's top pediatric residency programs. With 212 rooms, the hospital serves the medical and surgical needs of children throughout the greater Hampton Roads metro area, the eastern shore of Virginia and northeastern North Carolina.

Sentara Leigh Hospital completed \$20.5 million in renovations to its surgery and emergency departments in August 2010. Work on a major campus upgrade for Sentara Leigh has begun. The current hospital will be replaced with two five-story towers for inpatient rooms, a 48-bed orthopedic and rehabilitation center, and an internal garden, as well as a new parking deck for staff. The \$126 million expansion will increase the hospital's size by more than 40%, to 517,000 square feet. The targeted opening is in January 2016.

DePaul Hospital is also undergoing change, with plans to building and open a new 124-bed DePaul by 2014.

### **The Virginia Port Authority**

In 1981, the General Assembly passed landmark legislation designed to unify the ports in southeastern Virginia Hampton Roads harbor under a single agency, the Virginia Port Authority, with a single operating company, the Virginia International Terminals, Inc. The Port of Virginia, one of the world's largest natural deep-water harbors, is an integral part of Norfolk's economy.

The Virginia Port Authority is one of the top three ports on the east coast in terms of total value of port trade. Over 15.6 million tons of cargo shipped from the region's three main marine cargo terminals in 2011. In 2011, the port handled a total of 15,615,938 tons of general cargo, including 15,268,380 tons of containerized cargo, with 347,558 tons of breakbulk making up the remainder. By way of comparison, the port handled a total of 17,833,147 tons of general cargo in 2008 prior to the worldwide economic downturn that affected virtually every port with container shipping operations.

**Table D-13**  
**Virginia Port Authority Terminals**  
**General Cargo Tonnage**  
**Calendar Years 2007 – 2011**

<b>Calendar Year</b>	<b>Total General Cargo Tonnage (000's)</b>	<b>Percent Change over Previous Year</b>
2007	17,726	6.89%
2008	17,833	0.60
2009	14,908	(16.40)
2010	15,323	2.78
2011	15,616	1.91

Source: Virginia Port Authority.

Port-related business increases at the Virginia International Terminals drive new capital investment into the region. The Heartland Corridor, opened in September 2010, gives the Port access to markets in Ohio, Illinois, Michigan and points west. Additionally, by 2012, a 300-acre expansion of Norfolk International Terminal will be completed making it the largest inter-modal center in the United States. Two new government incentive programs were announced in 2011: the Barge and Rail Use tax credit, which provides a \$25 per TEU income tax credit for shippers that transfer their cargo via barge or rail; and the Port Volume Increase tax credit, which provides a \$50 per TEU tax credit for any company engaged in the manufacturing or distribution of manufactured goods that increases its cargo moving through the port by 5% in a taxable year.

### **Business, Industry and Commerce**

Several major companies are headquartered in Norfolk, including:

- Norfolk Southern, a Fortune 500 company and one of the country's largest railroad operators;
- Landmark Communications, one of the country's largest privately owned media companies with ownership of several daily newspapers, local TV stations, and specialty publications;
- Dominion Enterprises, a wholly-owned subsidiary of Landmark Communications, Inc., is a print and internet media group that includes numerous specialty publications and online classifieds;
- FHC Health Systems, one of the top 250 largest private companies in the country, specializing in health care management, health services, and online medical reports;
- CMA CGM Inc., the America's Headquarters, one of the world's largest container transportation and shipping company;
- Portfolio Recovery Associates, a firm whose primary business is the purchase, collection and management of defaulted customer receivables; and
- BlackHawk Products Group, which provides tactical gear such as holsters, body armor, and backpacks to the U.S. Defense Department and law enforcement agencies throughout the world.

The \$14 million Virginia Renaissance Center is being developed by Jacoby Development Group at the site of the former Ford Plant in Campostella. Of the 110 acre site, 40 acres have been sold to Katoen Natie for \$12 million to repackage and distribute plastic pellets. They expect to create 200 jobs, and have an option to purchase a 25 acre site for Phase II future expansion. The remaining acreage is being marketed to port-related and more traditional industrial companies.

There are a large variety of industrial, commercial and service employers located within the City. Table D-14 presents data regarding the major non-government employers in the City.

**Table D-14**  
**City of Norfolk, Virginia**  
**Major Non-Government Employers in 3<sup>rd</sup> Quarter 2011**

Company	Number of Employees	Product/Service
	1,000+	
Sentara Healthcare		Hospitals
Old Dominion University		Educational Services
Children's Hospital of the King's Daughter		Hospitals
Norfolk State University		Educational Services
Norshipco		Transportation Equipment Manufacturing
Eastern Virginia Medical School		Educational Services
Portfolio Recovery Association		Administrative and Support Services
Wal-Mart		General Merchandise Stores
Bon Secours DePaul Medical Center		Hospitals
Bank of America		Credit Intermediation and Related Activities
	500 - 999	
Maersk Line Limited		Water Transportation
Virginia International Terminal		Support Activities for Transportation
ODU Research Foundation		Professional, Scientific and Technical Services
Sentara Health Management		Insurance Carriers and Related Activities
Tidewater Wholesale Grocery		Merchant Wholesalers, Nondurable Goods
Colonna's Shipyard		Transportation Equipment Manufacturing
Personal-Touch Home Care, Inc.		Ambulatory Health Care Services
Tidewater Community College		Educational Services
McDonald's		Food Services
CMA-CGM (America), Inc.		Support Activities for Transportation
	250 - 499	
7-Eleven		Gasoline Stations; Food and Beverage Stores
Farm Fresh		Food and Beverage Stores
Virginia Wesleyan College		Educational Services
American Funds Service Company		Financial Investments
The Virginian-Pilot		Publishing Industries
Raytheon Technical Services		Professional, Scientific and Technical Services
Electronic Data Systems Corp		Internet Service Providers and Data Processing Services
Lake Taylor Hospital		Nursing and Residential Care Facilities
Marine Hydraulics International		Transportation Equipment Manufacturing
Food Lion		Food and Beverage Stores
United Services Automobile Association		Insurance Carriers and Related Activities
Virginia Dominion Power		Utilities
Clark Nexsen Owen Barbieri		Professional, Scientific and Technical Services
CP&O LLC		Support Activities for Transportation
Transit Management Company		Transit and Ground Passenger Transportation
ITT Educational Services, Inc.		Educational Services
Zim		Support Activities for Transportation
MDT Personnel LLC		Administrative and Support Services
Aramark Campus LLC		Food Services and Drinking Places

Source: Virginia Employment Commission.

**Table D-15**  
**City of Norfolk, Virginia**  
**Business Growth**  
**A Sampling of Business Activity in 2008-2013**

Company	Type	E/N	C/D/A	Investment (mil)
201 Twenty-One	Mixed-use residential apartments & retail	N	C	40
Bay Village Condominiums	Senior only residences	N	D	15
Belmont at Freemason	Apartments	N	C	45
Colonnas Shipyard	Expansion	E	C	14
CMA CGM	Americas Headquarters, shipping line	E	C	11.5
Commander Corporate Center	Second office building for spec	N	C	12
Court Complex	New combined Hall of Justice	N	D	108
Eastern Virginia Medical School	New education and research building	N	C	80
Fort Norfolk Plaza	Mixed-use medical office, retail	N	C	70
Hampton Roads Barge Company	New transportation/shipping company	N	C	2.3
Harris Teeter Expansion	Demolition of existing and construction of new grocery store	E	C	14
Harris Teeter	Construction of new store Wards Corner	N	A	18
Hurrah Players	theatre, dance, voice and acting troupe	N	C	1.4
Kroc Center	Community center	N	D	84
Lamberts Point	Recreation facility	N	D	7.6
Light Rail	Starter Line	N	D	338.3
MacArthur Memorial	Expansion	E	D	5
Marine Hydraulics	Expansion	E	C	82
Norfolk State University (NSU)	Library and student center	N	C	75
Norfolk International Terminals	Central Rail Yard, phase I & II	N	C	26.4
Norfolk International Terminals	Renovation of the South Berth	E	C	275
Norfolk International Terminals	North Gate relocation	E	C	.85
Norfolk International Terminals	rail yard sound wall:	N	C	1.5
Norfolk International Terminals	Transfer Zone safety improvements	N	C	2.5
Norfolk International Terminals	straddle carrier parking lot	N	D	3.5
Old Dominion University (ODU)	Innovations Research Park II	N	C	22.5
Old Dominion University (ODU)	Student fitness center	N	C	28
Old Point National Bank	New branch office in Ghent	N	C	2.8
P & P, LLC	Office/flex (4th building on site)	E	D	1
Residence Inn by Marriott	Extended-stay hotel	N	C	35
Riverside Terrace / Westport	Phasing townhouses and condominiums	N	D	80
Sentara Offices	48,000 sq ft office Poplar Halls	N	D	9
Sentara Garage	Colley Avenue	N	D	15
Sheraton Hotel	Renovation	E	C	32
SouthWind Apartment Community	120 apartments	N	C	15
Tidewater Community College	Student center	N	C	17.6
The Market at Ghent	Expansion to existing Farm Fresh store	E	C	3
The River House Apartments	197 apartments	N	C	36
Union Mission Building	Renovation into 60+ apartments	N	A	22
Virginia Arts Festival Headquarters	Offices and rehearsal studios	N	C	7.5
Virginia Zoo	Trail of the Tiger	E	C	15
Wells Fargo Center	Mixed-use Class A office, retail and residential	N	C	170
Westin Hotel & Conference Center	Hotel and conference center	N	A	150

Source: Economic Development Department, City of Norfolk, Virginia.

E/N – Expansion or New; C/D/A – Completed, Under Development, or Announced

### **Military**

The presence of the military in Norfolk has a significant impact on the local economy. The City is the home of the world's largest naval complex, with headquarters for Commander in Chief of U.S. Atlantic Command,

NATO's Supreme Allied Command Atlantic, Commander in Chief U.S. Atlantic Fleet and other major naval commands. Hampton Roads is the largest center of Coast Guard units in the world with the Atlantic Area Command and Maritime Defense Zone Atlantic in Portsmouth and its Maintenance & Logistic Command Atlantic headquarters in downtown Norfolk.

The U.S. Navy's direct economic impact on the region was \$13.5 billion in fiscal year ended June 30, 2010, comprised of a total annual payroll of \$8.2 billion and the balance consumed on goods and services and procurement contracts. The City expects to continue as a center of activity for the U.S. Navy with current total personnel (military and civilian) in excess of 70,000. There were 82,463 active-duty U.S. Navy military personnel in Hampton Roads in 2010, of which 63%, or 51,547, were assigned to Norfolk.

The Navy's newest local command, the Navy Reserve Forces Command, relocated to Norfolk from New Orleans in 2009. The Reserve Forces Command is the global headquarters for more than 68,000 reserve sailors and brought approximately 450 military and civilian employees to Hampton Roads. The Command is responsible for readiness, oversight, manpower management, logistics, mobilization and training of reserve sailors.

On August 9, 2010, Defense Secretary Robert Gates announced a series of steps aimed at reducing overhead in the defense budget and redirecting the money saved to the war effort and preparation for future conflicts. Among his directives was the closure of the Joint Forces Command ("JFCOM") which is headquartered in Norfolk. JFCOM employs approximately 4,700 military personnel, civilian defense workers and private contractors statewide. Of the 4,700 people employed by JFCOM across Virginia, approximately 3,800 are located in the Hampton Roads area.

President Obama approved JFCOM's closure on January 4, 2011, and Secretary Gates' detailed plans for the closure were released on January 7, 2011. On February 9, 2011, Army General Ray Odierno announced that JFCOM will be disestablished by the end of August 2011, with all related personnel moves to be completed by March 2012. About half of the JFCOM workforce will be retained, including approximately 1,900 of the 3,800 employed in the Hampton Roads area. Of JFCOM's 21 buildings in Norfolk and Suffolk, four are expected to remain in use, including the Joint Warfighting Center in Suffolk and three buildings in Norfolk. It is expected that the majority of the military personnel will be reassigned to other units within Norfolk and the region. The military, particularly the Navy, will remain a mainstay of the increasingly diversified southeastern Virginia economy.



**SUMMARY OF WHOLESALE CONTRACTS**

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## INTRODUCTION

The City maintains wholesale contracts or water service agreements with Chesapeake, Virginia Beach, Portsmouth, the WTW and the Navy. These contracts and agreements set forth the amount of water to be sold, rate setting procedures, metering points, dispute resolution and other matters.

The descriptions of the contracts and agreements set forth below are brief outlines or summaries of certain of their provisions. Such outlines and summaries do not purport to be complete, and reference should be made to each respective contract or agreement. Copies of the contracts and agreements may be obtained from the City for a full and complete statement of their provisions.

Capitalized terms used and not defined in this Appendix E shall have the meanings given them in the applicable water service contract or agreement.

### VIRGINIA BEACH, VIRGINIA

The City of Norfolk ("Norfolk") and the City of Virginia Beach ("Virginia Beach") entered into a Water Services Contract originally dated July 14, 1993, and amended and restated as of February 14, 2001 (as amended and restated, the "Water Services Contract"). Capitalized terms used in this Appendix are defined in the Water Services Contract or in the Official Statement.

The Water Services Contract provides for Norfolk to store, wheel and treat Virginia Beach's Gaston and Stumpy Lake water (sometimes referred to herein as "Virginia Beach Water").

#### Term of Contract.

The Water Services Contract is in effect until June 30, 2030, unless earlier terminated.

#### Water Treatment, Delivery Services and Obligations.

Norfolk must receive and store Virginia Beach Water at locations satisfactory to both parties, transport the water through Norfolk's raw water system, treat the water, provide clear well storage, pump and transport the treated water to the metered points of delivery for the Virginia Beach Water distribution system, and perform all related acts to provide treated water to Virginia Beach. Virginia Beach must pay for these services and provide Virginia Beach Water. The Water Services Contract is a water services contract, not a contract for the sale of treated water, and the right of Virginia Beach to receive treated water under the Water Services Contract is dependent on Virginia Beach's ability to provide Virginia Beach Water, including, but not limited to, obtaining all necessary permits from governmental agencies, and constructing, operating and maintaining the Gaston pipeline, Stumpy Lake and Stumpy Lake pipeline providing Virginia Beach Water to discharge points satisfactory to Norfolk and Virginia Beach. Norfolk must obtain all permits required to construct, operate, maintain or expand Norfolk's water system in conjunction with performance of the Water Services Contract; provided, however, in obtaining or retaining any permit, Norfolk is only required to use its good faith best efforts by all reasonable legal means. Virginia Beach and Norfolk must cooperate and assist each other in obtaining the permits. Norfolk must also keep and maintain its water facilities in good working order in accordance with generally accepted standards for the operation and maintenance of a water system.

Except as otherwise provided in the Water Services Contract, Norfolk must deliver treated water to the Virginia Beach distribution system in such amounts as required by Virginia Beach, up to a total annual average amount of 45 mgd, but not to exceed 0.9 times the maximum sustainable rate of Gaston water which Virginia Beach is capable of delivering to Norfolk for Virginia Beach's use, plus 1.8 mgd for Stumpy Lake water. If the Stumpy Lake contract capacity increase option is exercised (as described under the caption "Effective Date" below), the maximum permissible total annual average amount stated above shall increase by 1.8 mgd to 46.8 mgd.

Virginia Beach is obligated to supply additional Virginia Beach Water above the Virginia Beach current monthly demand if requested by Norfolk, but is not required to supply an amount of Virginia Beach Water in any

consecutive 36-month period in excess of the amount of treated water delivered to Virginia Beach under the Water Services Contract during the same period adjusted for certain losses.

Norfolk is obligated to exercise due care and adhere to generally-accepted engineering practices in the planning, construction, operation, maintenance, and expansion of its water system in order to meet its obligations under the Water Services Contract. Norfolk may not use, sell, assign, or otherwise commit to supply water in excess of Norfolk's safe yield, transmission or treatment capacity except as otherwise provided in the Water Services Contract. Norfolk may sell water, pursuant to a written contract, in excess of its safe yield on an interruptible basis to industrial customers having installed and permitted alternate water sources available, with the consent of Virginia Beach, such consent not to be unreasonably withheld. Norfolk must terminate or restrict the supply of water to such interruptible customers (in accordance with the terms of each contract) in order that Norfolk can meet its obligations to Virginia Beach under the Water Services Contract.

#### **Delivery Points and Measurement.**

Norfolk must deliver treated water to Virginia Beach at the delivery points set forth in the Water Services Contract, and at such additional points as may be mutually agreed upon by the parties. Unless otherwise agreed by both parties, Norfolk must construct, own and maintain treated water meter vaults, meters, and all associated facilities located at the delivery points. Virginia Beach must provide Norfolk's employees and agents ingress and egress across property owned by Virginia Beach to all of Norfolk's premises inside Virginia Beach's boundaries to install, operate, inspect, test, and maintain pipelines, pump stations, and facilities, and to read meters owned or maintained by Norfolk within the city limits of Virginia Beach or on property controlled by Virginia Beach. Virginia Beach must install and operate raw water meter or meters capable of measuring the amount of water being delivered from the Gaston pipeline and the Stumpy Lake pipeline to Norfolk including totalizing and recording total flow and daily rates of flow. Each meter must be tested at least once every two years.

#### **Quality and Pressure of Water Delivered to Virginia Beach.**

Norfolk must provide the necessary water treatment facilities, operational practices and related services to ensure that the quality of treated water delivered to Virginia Beach pursuant to the Water Services Contract meets all potable water standards mandated by federal and state law, rule or regulation. Except as otherwise provided in the Water Services Contract, Virginia Beach bears the sole responsibility for maintaining water quality beyond the delivery points within the Virginia Beach distribution system.

#### **Rates and Charges.**

*Method of Rate Determination.* The annual rates charged by Norfolk for rendering treated water service under the terms of the Water Services Contract are based upon the utility basis of cost of service principles established by the American Water Works Association. Under such principles, Virginia Beach is charged for treated water service in a manner which recovers its allocable share of operation and maintenance expense, depreciation expense and return on rate base associated with the Norfolk water system.

*Operation and Maintenance Expense.* Virginia Beach must pay its share of annual expenses of the Norfolk water system, including appropriate departmental and city general overhead and payments in lieu of real estate and tangible personal property taxes, excluding payments to Norfolk's general fund and certain non-common payments.

*Depreciation Expense.* Virginia Beach must pay an annual depreciation expense associated with the Virginia Beach rate base, excluding construction work in progress.

*Return on Rate Base.* Virginia Beach must pay to Norfolk an annual return on the Virginia Beach rate base. The annual rate of return to be applied to the Virginia Beach rate base is computed by multiplying the embedded effective average annual interest cost of the Norfolk Utilities Department water system debt for the applicable rate year by 1.25.

*Rate Base.* The rate base for the purposes of the Water Services Contract is the original cost of the Norfolk water system less accrued depreciation (as shown on Norfolk's books and records). The rate base includes construction work in progress, expenditures which have been paid by Norfolk at the time of rate determination, and general facilities related to the Norfolk water system.

The rate base is allocated between Virginia Beach and Norfolk based on the contract allocation capacities and safe yield of Virginia Beach compared to the capacities of the Norfolk water system facilities serving Virginia Beach and the combined system safe yield. All facilities in the Norfolk water system providing service or benefit to Virginia Beach, including raw water supply, storage and transmission, treatment, pumping, storage, and treated water transmission mains, meters, and administrative and general facilities are included in the rate base subject to allocation to Virginia Beach. Excluded from the rate base subject to allocation to Virginia Beach are: fire hydrants; retail meters and services; all transmission and distribution facilities not used to serve Virginia Beach; and land, land rights and general plant related to excluded items; and certain contributed capital.

*Fixed Capacity Charge.* Virginia Beach must pay an annual fixed capacity charge sufficient to recover depreciation expense and the return on the Virginia Beach rate base. This fixed capacity charge is payable in equal monthly amounts during the year or years for which rates are applicable.

*Demand Charge.* Virginia Beach must pay an annual unit demand charge per mgd applied to the measured coincidental maximum hourly demand of Virginia Beach. The annual unit demand charge is based on the common to all operation and maintenance expense of the facilities providing service to Virginia Beach, excluding the energy portion of power costs, chemical costs, sludge disposal and other costs which vary directly with volume of treated water produced. The annual unit demand charge per mgd is 1.01 times the result of dividing the common to all operation and maintenance expense described in the preceding sentence by the sum of the Virginia Beach and Norfolk noncoincidental maximum hourly pumpage outputs at the Norfolk treatment plants providing service to Virginia Beach.

*Supplemental Demand Charge.* In the event that Virginia Beach's maximum hourly demand exceeds its contract hourly demand rate of 90 mgd, Virginia Beach must pay a supplemental demand charge for that portion of its maximum hourly demand which exceeds 90 mgd. The amount of the supplemental unit demand charge is equal to two (2) times the unit demand charge as determined in accordance with the formulas set forth above. If the Stumpy Lake contract capacity increase option is exercised (as described under the caption "*Effective Date*" below), the maximum hourly demand rate above shall be 93.6 mgd.

*Commodity Charge.* Virginia Beach must pay a commodity rate per 1,000 gallons of treated water. This charge is sufficient to recover the energy portion of power costs, chemical costs, sludge disposal, and other costs which vary directly with the volume of treated water produced. The Virginia Beach commodity charge is 1.01 times the amount determined by dividing the total variable cost described in the preceding sentence for the Norfolk water treatment plants providing service to Virginia Beach by the total treated water volume output of such Norfolk water treatment plants, in thousands of gallons.

*Biennial Adjustment of Rates.* Norfolk is obligated to develop projections of rates applicable to Virginia Beach for treated water service on a biennial basis based on a cost of service study prepared by an independent consulting firm. The projections of rates, along with a copy of the cost of service study, must be submitted to Virginia Beach not less than 120 days prior to the beginning of the two year period. Virginia Beach will be billed monthly for treated water service by Norfolk using the projected rates applicable to water use beginning with the first day of the applicable Fiscal Year and for the remainder of the two Fiscal Years. Such projections of rates, however, may be revised at any time, upon 60 days' advance notice, during the two Fiscal Years by Norfolk should unexpected significant increases or decreases in Virginia Beach's allocated portion of Norfolk's water system costs occur during the Fiscal Years; however, Norfolk may not adjust Virginia Beach's rates more than once during the two year period unless it also adjusts rates to its own retail customers.

Within six months after the end of the second Fiscal Year, Norfolk must complete and submit to Virginia Beach a true-up schedule of rates and annual billings applicable to the previous two Fiscal Years which reflects an allocation of costs of service based on actual cost and experience incurred by the Norfolk water system as shown in the audited books and records of Norfolk. The February, 2001, amendments to the amended and restated water

services contract clarified the contract's methodology as to cost of service and true-up adjustments. Any resulting credits or payments applicable to treated water service resulting from a true-up shall be divided into twelve equal payments or credits to be paid or applied during the second Fiscal Year.

#### **Source and Priority of Payments.**

*Source of Payment.* Virginia Beach must make payments of all charges for treated water service, as well as charges upon termination of the Water Services Contract (the "termination payments") and any other charges payable under the Water Services Contract, solely from revenues received by Virginia Beach from charges paid by users of its water and sewer system and available to it for such purposes for so long as Virginia Beach operates its water and sewer system on a combined basis; provided, however, if Virginia Beach chooses to operate its water system separate and apart from its sewer system, then such charges must be paid solely from revenues of its water system. The charges payable under the Water Services Contract are not deemed to create or constitute an indebtedness or a pledge of the faith and credit of the Commonwealth or of any county, city, town or other political subdivision thereof, including Virginia Beach, for purposes of any constitutional, statutory or charter limitations.

*Characterization of Charges under the Water Services Contract.* The demand charge, supplemental demand charge, commodity charge, fixed capacity charge and termination payments are deemed to be a part of the annual operating expense of the Virginia Beach water and sewer system, or the water system, as applicable.

Except as described in the following paragraph, the demand charge, supplemental demand charge, commodity charge, fixed capacity charge and termination payments must be paid prior to the debt service on any water and sewer revenue bonds or double barrel bonds of Virginia Beach.

The payment of the fixed capacity charge is on parity with the payment of debt service on certain bonds of Virginia Beach. The payment of the termination payments is subordinate to the payment of debt service on such bonds.

Other than as described above, Virginia Beach will not issue any water and sewer revenue bonds or double barrel bonds as long as the Water Services Contract is in full force and effect (including (i) certain refunding bonds and (ii) revenue or general obligation bonds, the proceeds of which finance the cost of termination payments), the debt service on which will be payable prior to or on parity with Virginia Beach's payment obligations under the Water Services Contract (*i.e.*, the demand charge, supplemental demand charge, commodity charge, fixed capacity charge and termination payments). Virginia Beach may not amend or supplement its Master Bond Resolution or enter into any successor indenture, trust agreement or resolution pledging the revenues of its water and sewer system, or its water system, as applicable, in such a way that will subordinate or adversely affect the pledge or the dignity thereof securing its payment obligations under the Water Services Contract (including the termination payments), without the written consent of Norfolk.

*Issuance of Bonds.* Virginia Beach retains the right under the Water Services Contract to issue either its revenue or general obligation bonds, the proceeds of which will finance the costs of making the termination payments. The determination as to whether to issue such bonds is within the complete control of Virginia Beach.

*Rate Covenant.* Virginia Beach must fix, charge and collect such rates, fees and other charges for the use of and for the services furnished by its water and sewer system, or its water system, as applicable, and must from time to time and as often as shall appear necessary, revise such rates, fees and other charges so that revenues received from its water and sewer or its water system, as appropriate, will be sufficient in each year to pay all amounts due under the Water Services Contract and all other operation and maintenance expenses of its water and sewer system, or its water system, as applicable.

#### **Reduced Water Usage By Virginia Beach.**

If Virginia Beach receives reduced quantities of treated water from Norfolk because Virginia Beach has developed or acquired additional treated water supplies, Virginia Beach must for the duration of the Water Services Contract pay the annual fixed capacity charge, and the commodity rate for the actual treated water delivered to

Virginia Beach. In addition, for a period of three years, Virginia Beach must pay the annual demand charge applied to the greater of its hourly demand for the year or the highest maximum hourly demand experienced during the five (5) years immediately preceding the reduction.

#### **Curtailment.**

The parties acknowledge in the Water Services Contract that supply or treatment problems may occur which prevent or limit Norfolk's ability to deliver treated water to Virginia Beach and/or Norfolk's other treated water customers. In the event that the conditions which prevent or limit Norfolk's ability to deliver treated water to Virginia Beach are applicable to other of Norfolk's customers, Norfolk must seek and, to the extent permitted by federal and state laws and regulations and national security constraints as declared by an official of the United States, enforce the imposition of treated water curtailment upon all affected customers, retail, wholesale or otherwise, in order that all such treated water customers will be similarly affected. If water supplies or services are curtailed in accordance with the procedures set forth above, Virginia Beach and Norfolk are obligated to cooperate by imposing conservation measures upon their respective customers. Neither Norfolk nor Virginia Beach are required to impose curtailments of water supply which would violate any requirements imposed by the State Water Control Board and other state and federal agencies and laws.

#### **Force Majeure and Hold Harmless.**

Norfolk is not liable to Virginia Beach for any act, omission, or circumstances occasioned by or in consequence of any act of God, strikes, lockouts, acts of the public enemy, wars, etc.

In case of breaks in the mains, or malfunction of pumping machinery, or other water works equipment, or the occurrence of any other event which makes it necessary temporarily to reduce pressure or cease delivery of water to Virginia Beach, Norfolk must, if practicable, give previous notice of one week. In no case may any claim for damage due to reduced water service or pressure be made by Virginia Beach, and Virginia Beach must hold Norfolk harmless from any third-party suit arising from, or related to, reduced water service or pressure on the Virginia Beach distribution system unless Norfolk's negligence was the cause of the reduced water service or pressure.

Virginia Beach must hold harmless and indemnify Norfolk against any claims or losses arising from receipt of Virginia Beach Water by Norfolk or delivery by Norfolk of treated water to Virginia Beach, unless Norfolk's negligence or failure to comply with its water quality obligations was the cause of the damage which gave rise to the claim or loss.

#### **Stumpy Lake Contract Capacity Increase.**

By reason of Virginia Beach's acquisition of Stumpy Lake, Virginia Beach may desire to request an increase of the Virginia Beach contract capacities provided for in the Water Services Contract, from an annual average day rate of 45 mgd to 46.8 mgd, a maximum day rate of 67.5 mgd to 70.2 mgd, and a maximum hour rate of 90 mgd to 93.6 mgd. Norfolk, in its sole opinion, shall determine whether existing uncommitted constructed capacity exists in Norfolk facilities capable of meeting any of such additional contract capacities. Upon affirmative notice by Norfolk of such existing uncommitted capacity, the increased contract capacities shall become effective on July 1 of the following year.

### **Breaches Related to Treated Water Safe Yield.**

If Virginia Beach's treated water average day demand (measured at the metering points) exceeds the lesser of 45 mgd or 99.0% of its treated water safe yield, Virginia Beach must reduce its treated water usage such that it does not exceed the lesser of 45 mgd or 99.0% of its treated water safe yield. In such event, Virginia Beach must institute adequate measures to ensure that its demand does not exceed the lesser of 45 mgd or 99.0% of its treated water safe yield. In addition, in such event, Norfolk may restrict the amount of treated water Virginia Beach may receive to ensure that the usage of Virginia Beach does not exceed the lesser of 45 mgd or 99.0% of its treated water safe yield. If the Stumpy Lake contract capacity increase option is exercised, Virginia Beach's maximum permissible annual average day demand of 45 mgd shall be 46.8 mgd.

If the Virginia Beach average day demand (measured at the metering points) exceeds the lesser of 45 mgd or 99.0% of its treated water safe yield, for a Fiscal Year, then Virginia Beach must pay a supplemental charge for all usage above the lesser of 45 mgd or 99.0% of its treated water safe yield in addition to all other charges provided in the Water Services Contract. The supplemental charge is the rate of \$4.00 per 1,000 gallons multiplied by the sum of 1 plus .05 times the number of years since 1990. If the Stumpy Lake contract capacity increase option is exercised, Virginia Beach's maximum permissible annual average day demand of 45 mgd shall be 46.8 mgd.

If the combined treated water average day demand of Norfolk and all of its treated water customers (measured at the treatment plants), excluding Virginia Beach and any other customers for which and to the extent that Norfolk wheels and treats raw water (adjusted for losses), exceeds Norfolk's treated water safe yield, then Norfolk must reduce its usage and that of its treated water customers, other than Virginia Beach and any other customers for which and to the extent that Norfolk wheels and treats their raw water (adjusted for losses), such that their combined treated water usage does not exceed Norfolk's treated water safe yield. In addition, in such event, Norfolk must at the request of Virginia Beach, to the extent permitted by federal and state laws and regulations and national security constraints as declared by an official of the United States, restrict the amount of treated water that Norfolk and its customers may receive to ensure that the combined usage of Norfolk and its customers (excluding Virginia Beach and any other customers for which and to the extent that Norfolk wheels and treats their raw water (adjusted for losses)) does not exceed Norfolk's treated water safe yield.

If the combined treated water average day demand of Norfolk and its customers (excluding Virginia Beach, any other customers for which and to the extent that Norfolk wheels and treats raw water, adjusted for losses, and interruptible) at the treatment plants exceeds Norfolk's treated water safe yield for a Fiscal Year, then it must pay a supplemental charge to Virginia Beach for all use above Norfolk's treated water safe yield. The supplemental charge is equal to \$4.00 per 1,000 gallons multiplied by the sum of 1 plus .05 times the number of years since 1990.

### **Breaches Related to Contract Capacities.**

If Virginia Beach's average day, maximum day or maximum hour demand exceeds the capacities contracted for and set forth in the Water Services Contract, then Virginia Beach must reduce its treated water demands to the average day, maximum day, and maximum hour capacities for which it has contracted in the Water Services Contract. To ensure that the necessary reductions do occur, Virginia Beach must institute adequate conservation measures. In addition, in such event, Norfolk may restrict the rate at which Virginia Beach may receive water to ensure that the demands of Virginia Beach do not exceed the average day, maximum day, or maximum hour capacities for which Virginia Beach has contracted.

### **Other Breaches.**

If either party breaches any term of the Water Services Contract, the other party must give written notice of the breach, identifying the provision(s) of the Water Services Contract which are being breached. The breaching party has six months from the date of the notice within which to cure the breach. In the event the breach remains uncured for six months, then the breaching party must pay to the other, for each 30 days or portion thereof the breach remains uncured, in addition to all other payments due under the Water Services Contract, an amount, beginning with the seventh month, equal to 10% of the total charge for water on a monthly basis due by the City of Virginia Beach to Norfolk. This 10% amount increases to 50% should the breach remain uncured for an uninterrupted period of twelve months. However, no payment is required so long as the party in breach makes a



continuous, good faith effort to cure the breach. These provisions of the Water Services Contract do not apply to the conditions, breaches and circumstances with respect to rates and charges or breaches related to treated water safe yield.

**Termination by Norfolk.**

Norfolk may terminate the Water Services Contract if one (1) of the following events occurs:

(a) The Gaston pipeline is not 50% complete by June 30, 1998, with (i) all permits and approvals still in force for the construction in progress and (ii) all permits and approvals necessary to withdraw water from Lake Gaston and have the pipeline fully operational.

(b) The Gaston pipeline is not 100% complete and fully operational by June 30, 2000, with all permits and approvals still in force.

(c) Virginia Beach does not give authorization for the construction of the Plant Hydraulic Improvements prior to January 1, 1997.

(d) Virginia Beach does not pay in full a statement within 120 days of receipt unless the unpaid portion of such statement has been submitted to the dispute resolution process set forth in the Water Services Contract.

(e) Virginia Beach has a total and permanent loss of ability to deliver Virginia Beach Water to Norfolk, including, but not limited to, equipment failure or destruction, or the loss of any required permit, approval, or authority. Such loss is deemed permanent if it continues for twenty-four consecutive months.

(f) Virginia Beach willfully and continuously breaches any term of the Water Services Contract which significantly affects the operation of the Water Services Contract.

Upon termination of the Water Services Contract by Norfolk after the Gaston Pipeline is fully operational, Virginia Beach may receive water from Norfolk (in amounts to be determined by Norfolk) for three (3) years after the effective date of termination, if Norfolk has sufficient surplus water available, provided, however, if there is a then existing surplus water contract between Norfolk and Virginia Beach, then the terms of the surplus water contract govern. Virginia Beach must pay for all such surplus water at a rate equal to two (2) times the sum of the charges which would be applicable under the Water Services Contract. Except as described in this paragraph, Virginia Beach is not entitled to receive any water under the terms of the Water Services Contract after the effective date of termination of the Water Services Contract.

If Virginia Beach receives water from Norfolk which is not provided for under the terms of the Water Services Contract or another written contract between the parties, Virginia Beach must pay for all such water received at a rate equal to three (3) times the sum of the charges which would be applicable under the Water Services Contract.

In the event that the Water Services Contract was terminated by Norfolk prior to the date that Virginia Beach received services under the Water Services Contract and prior to the date Virginia Beach authorized the construction of the Plant Hydraulic Improvements, Virginia Beach was obligated to make certain payments to Norfolk as if Virginia Beach had terminated the Water Services Contract. In the event that the Water Services Contract was terminated by Norfolk prior to the date that Virginia Beach received services under the Water Services Contract and after the date Virginia Beach authorized the construction of the Plant Hydraulic Improvements, Virginia Beach was obligated to make certain other payments to Norfolk as if Virginia Beach had terminated the Water Services Contract. In the event that the Water Services Contract was terminated by Norfolk, after the date that Virginia Beach received services under the Water Services Contract, or by Virginia Beach, Virginia Beach was obligated to pay to Norfolk an amount equal to the rate base allocated to Virginia Beach under the most recent cost of service study, provided such facilities are not necessary for Norfolk to provide service to Norfolk or customers of Norfolk with contracts for the sale of water, including Virginia Beach.

### **Termination by Virginia Beach.**

Virginia Beach had the option to terminate the Water Services Contract at any time prior to authorizing construction of the Plant Hydraulic Improvements by providing written notice. Virginia Beach also had the option to terminate the Water Services Contract at any time after notifying Norfolk to proceed with the Plant Hydraulic Improvements and prior to receiving services pursuant to the Water Services Contract, if Virginia Beach believes that the Gaston pipeline will not become fully operational.

The preceding termination rights have expired due to the commencement of construction of the Plant Hydraulic Improvements and the completion of the Gaston pipeline. Except as otherwise provided in the preceding paragraph, Virginia Beach may terminate the Water Services Contract if one (1) of the following events occurs:

- (a) Norfolk has a permanent and total loss of ability to wheel and treat Gaston water for 24 consecutive months.
- (b) Norfolk willfully and continuously breaches any term of the Water Services Contract which significantly affects the operation of the Water Services Contract.
- (c) Virginia Beach has a total and permanent loss of ability to deliver Gaston water to Norfolk, including, but not limited, equipment failure or destruction, or the loss of any required permit, approval or authority. Such loss is deemed permanent if it continues for 24 consecutive months.

Upon the effective date of termination by Virginia Beach other than for events specified in subparagraph (c) above, Virginia Beach has no further obligations or responsibilities to Norfolk under the Water Services Contract except to pay any outstanding amounts due for service provided under the Water Services Contract.

### **UNITED STATES DEPARTMENT OF THE NAVY**

In 1981, the City entered into a utility service contract for water service with the Navy for the delivery of water to the gates of the various Navy installations located in the City and outside the City. The contract was modified effective July 1, 2003, to establish treated water rates applicable to the Naval facilities located in Norfolk and Virginia Beach. The current contract expires on June 30, 2012, and it is expected to be renewed on its current terms, which is Norfolk's retail rate plus 10%. Sales to the Navy averaged 4.28 mgd for Fiscal Year 2011, which represents approximately 6.6% of the total metered water consumption of the Water System.

### **Rates and Charges.**

The Navy agreed to pay the rates ranging from \$3.04/cct to \$3.84/cct Fiscal Years 2004 through 2008 for treated water delivered to the point of delivery as contained in the Water Services Specifications (as defined in the contract) during the term of the contract.

The rates set forth above are the amended rates applied to the actual amount of water delivered to the points of delivery. In 2003, the contract with the Navy was amended so that the Navy rate is the City retail water rate plus 10%. Since the payment for services is now based on the established retail rate, there will be no future adjustments to the rate based on a true-up cost of service study. The current contract expires June 30, 2011.

Prior to the contract modification with the Navy, the City's contract required a biennial true-up of rates. The Defense Contract Audit Agency ("DCAA") completed the Fiscal Year 2002/Fiscal Year 2003 True-Up in March 2006. The water charge for the Fiscal Year 2002/Fiscal Year 2003 True-Up period was \$3.9 million. In May 2007, the City of Norfolk offered a settlement amount of \$1.9 million. The Navy had requested that the City apply the 2004 fixed rates and had claimed that \$3,500,000 be rebated as a result of the application of the 2004 rates. The City reviewed the claim of the Navy and believed that the claim was without merit. On March 12, 2008, an agreement was reached and the Navy accepted the City's \$1.9 million settlement. The City has since repaid the Navy \$1.9 million in full in monthly installments of \$53,333.33 over a thirty-six month period commencing July 2008.

### **Disputes Clause.**

The contract is subject to the Contract Disputes Act of 1978 (the "Disputes Act"). Except as provided in the Disputes Act, all disputes arising out of the contract shall be resolved as specified in the contract. The Contracting Officer's decision will be final unless appealed by the City or a suit is filed by the City as provided in the Disputes Act.

In the event of a disagreement, the City shall continue to provide water service and the Navy shall continue to pay the City at the then existing rate. After a determination of the final rates, the Navy shall promptly pay from that point forward such rates that are determined to be just and reasonable.

### **CITY OF PORTSMOUTH, VIRGINIA**

In October 2002, the City entered into a contract with Portsmouth for sale of emergency raw water. The Contract was amended in September 2007 and again in November 2008, in each case to increase the rates paid by Portsmouth under the Contract. Portsmouth has constructed and tested the necessary improvements to convey raw water to its reservoirs.

### **Delivery Point, Plan, Construction and Operation.**

Portsmouth financed, designed, constructed and operates the Raw Water Delivery System pursuant to the Contract. In September 2004, the City provided Portsmouth written approval and acceptance of the Raw Water Delivery System after assurance was received that the improvements provide proper and safe integration with the City's Water System. According to the contract, the City shall endeavor to deliver and sell to Portsmouth up to 10 mgd of temporary surplus raw water.

### **Delivery and Sale of Temporary Surplus Raw Water.**

Following the Portsmouth Start-up Date, the City shall endeavor to deliver and sell to Portsmouth up to 10 mgd of Temporary Surplus Raw Water. Temporary Surplus Raw Water means the difference between the Safe Yield of the City's Water System after adjusting for losses, and the total of (i) the amount of raw water required to supply the persons and entities in the City with treated water, (ii) the amount of raw water required to supply raw and treated water to the City's United States government customers and (iii) the amount of raw water required to supply raw and treated water to the City's other existing and future customers under fixed term contracts.

### **Water Rates and Charges.**

The rate of the Temporary Surplus Raw Water sold pursuant to the contract in Fiscal Year 2012 is \$1.17 per thousand gallons of Temporary Surplus Raw Water delivered to the Delivery Point, subject on July 1 of each year to an adjustment based on the CPI Adjustment Factor; provided, however, in no event shall the rate decrease from the previous Fiscal Year.

### **Term of Contract.**

The contract shall continue to be in effect until either party, on 10 days' written notice, terminates the contract.

### **CITY OF CHESAPEAKE, VIRGINIA**

In December 2002, the City entered in to a raw water sales contract with Chesapeake for the sale of surplus raw water. The contract specifies the terms and conditions of the sale of raw water, rates, termination provisions and dispute resolution. Raw water sales to Chesapeake averaged 7.1 mgd in Fiscal Year 2011 which represents approximately 13.0% of the Water System's total metered water consumption.

### **Term of Contract.**

The contract is for a term beginning January 1, 2003, and ending December 31, 2042. Pursuant to the contract, the City began service to Chesapeake as of July 1, 2006 (the "Chesapeake Start-up Date").

### **Delivery and Sale of Surplus Raw Water.**

Upon and following the Chesapeake Start-up Date, the City agrees to sell and deliver to Chesapeake and Chesapeake agrees to accept the Target Amount transmitted to the extent practical at a uniform flow rate. The initial Target Amount shall be seven mgd.

In the event that the metered amount of Surplus Raw Water delivered in a Billing Month is less than the Target Amount multiplied by the number of days in the Billing Month (the difference being a "Shortfall"), Chesapeake may request, in addition to the Target Amount, that an amount up to such Shortfall be delivered in subsequent Billing Months.

Chesapeake may request to temporarily or permanently increase the Target Amount. If the City determines that it can satisfy such request, the City at its sole discretion, may agree to increase the Target Amount accordingly. Chesapeake may request to temporarily decrease the Target Amount and, upon agreement by the City, the Target Amount shall be decreased.

### **Water Rates and Charges.**

The initial Water Rate was ninety-five cents (\$0.95) per thousand gallons of Surplus Raw Water sold, which rate was effective through June 30, 2003. Beginning on July 1, 2003, and upon each July 1 thereafter, the Water Rate is adjusted by multiplying the Water Rate by the greater of (i) the CPI Adjustment Factor or (ii) 100%. In no event shall the Water Rate decrease.

Chesapeake shall make monthly payments for the metered amount of Surplus Raw Water delivered. Chesapeake's monthly payment shall equal the Target Amount, which is seven mgd, multiplied by the number of days in the Billing Month unless, (i) Chesapeake and Norfolk have agreed to decrease the Target Amount, in which case such decreased Target Amount shall be used in such calculation; (ii) the average daily flow for a billing month exceeds 0.75 mgd over the sum of the Target Amount plus the average daily volume of Shortfall, in which case Chesapeake's monthly payment for such month shall equal the sum of the Target Amount, plus the average daily volume of Shortfall delivered, plus 0.75 mgd multiplied by the number of days in that Billing Month; and (iii) the amount of Shortfall delivered in any Billing Month shall be included in the total volume of Surplus Raw Water delivered for the calculation of that Billing Month's monthly payment; provided, however, that the Water Rate charged for any amount of delivered Shortfall shall be the Water Rate in effect for the Billing Month during which such Shortfall was initially determined.

### **Reductions and Curtailments.**

The City may reduce the Target Amount of Surplus Raw Water delivered to Chesapeake only if one or more of the following conditions occur:

- (i) decrease in Surplus Water Supply;
- (ii) facility or equipment failure;
- (iii) drought;
- (iv) contamination; and
- (v) force majeure.

### **Termination by the City.**

The City may terminate the contract if one or more of the following events of default occurs: (i) Chesapeake does not pay in full within 60 days from the date of receipt of an invoice, (ii) Chesapeake has willfully breached the terms of the contract which significantly affects the operation of the contract, or (iii) construction of the Raw Water Delivery System is not fully complete within five years of the established Start-up date of July 1, 2006.

### **Termination by Chesapeake.**

Chesapeake may terminate the contract if: (i) the City has willfully breached any term of the contract which significantly affects the operation of the contract or (ii) the City delivers less than the difference of the Target Amount minus 0.75 mgd for more than six consecutive Billing Months.

### **Pre-existing Surplus Treated Water Purchase Arrangement.**

Chesapeake has been purchasing surplus treated water from the City for over 30 years. No term of the raw water contract shall reduce or waive either party's rights or obligations regarding the City's sale to Chesapeake of surplus treated water. As part of the raw water contract, the City agrees to continue selling and Chesapeake agrees to continue purchasing no less than two mgd of surplus treated water as long as the raw water sales contract is effective.

## **WESTERN TIDEWATER WATER AUTHORITY**

In September 2009, the City entered into a raw water sales contract with the Western Tidewater Water Authority ("WTWA") and Suffolk and Isle of Wight, the members of WTWA, for the sale of available surplus raw water supply to WTWA. The contract specifies the terms and conditions of the sale of raw water, rates, termination provisions and dispute resolution.

The contract is a "take or pay" contract, requiring the City to make available the Contract Amounts, which are the Average Day Amounts, the Maximum Month Amounts and the Maximum Day Amounts specified in the contract, and WTWA to pay for those Contract Amounts, regardless of actual consumption.

### **Term of Contract.**

The contract is for a term beginning September 29, 2009, and ending June 30, 2048. Pursuant to the contract, the City will begin service to WTWA on the earlier of (i) the day on which water begins to flow to the Delivery Point(s) based on a determination by the City and WTWA that the Raw Water Delivery System is operational and capable of delivering the amounts required by the contract or (ii) February 1, 2014 (the "WTWA Start-up Date").

### **Delivery and Sale of Surplus Raw Water.**

Upon and following the WTWA Start-up Date, the City agrees to sell and deliver to WTWA and WTWA agrees to purchase water in accordance with the Contract Amounts set forth in the contract. WTWA shall not be obligated to take delivery of the entire Contract Amounts.

Should WTWA request delivery of water in excess of the Maximum Day, Maximum Month and/or Average Day Amounts, other than water for a WTWA Emergency, at the City's sole discretion, the Contract Amounts may be adjusted to meet the request. At the end of any Fiscal Year during which Contract Amounts have been adjusted, the City may, in its sole discretion, determine that the Contract Amounts will remain at such increased amounts for the following Fiscal Year or revert to the Contract Amounts set forth in the contract. In no event shall the Contract Amounts exceed the highest Contract Amount set forth in the contract.

WTWA may request permanent acceleration of the Contract Amounts. The City is required to comply with such request unless (i) water is unavailable due to a temporary water sales contract in effect, (ii) the facilities and/or

water resources necessary to provide additional water cannot be made available, or (iii) the Contract Amounts have been reduced due to reduction in the City's Safe Yield under the contract.

WTWA may request raw water to meet a bona fide WTWA Emergency. If the City determines that additional water is available, taking into consideration the City's other existing demands, the City may, in its sole discretion, deliver the water to WTWA. The supply of water to meet a WTWA Emergency shall not be used to determine whether Contract Amounts have been exceeded or to reduce the Reservation Amount or Reservation Fee set forth in the contract.

#### **Water Rates and Charges.**

*Water Rates.* The initial Water Rate was one dollar and eleven cents (\$1.11) per thousand gallons, which rate was effective through July 1, 2009. Beginning on July 1, 2009, and upon each July 1 thereafter, the Water Rate is adjusted by multiplying the Water Rate by the CPI Adjustment Factor. In no event shall the Water Rate decrease from the previous Fiscal Year.

For the period from July 1, 2008 until the WTWA Start-Up Date, WTWA shall pay the City the Monthly Water Payment Amount without regard to whether water is available to be delivered. On and after the WTWA Start-Up Date, WTWA shall pay Norfolk the Monthly Water Payment Amount, subject to certain adjustments provided for in the contract.

*Reservation Fee.* Pursuant to the contract, WTWA shall pay a Monthly Reservation Fee. The Monthly Reservation Fee shall be calculated by multiplying the Reservation Amount set forth in the contract by the percentages specified in the contract. For the period from January 1, 2011 through the WTWA Start-Up Date, the percentage used to calculate the Monthly Reservation Fee is 20% and thereafter it is 25%.

#### **Plan, Construction and Operations.**

The Raw Water Delivery System is broken into the WTWA Portion of Plan and the Norfolk Portion of Plan. Both WTWA and the City are responsible for the planning, bidding, construction and testing of their respective portions of the Raw Water Delivery System in accordance with the construction protocol set forth in the contract.

The City shall be under no obligation to deliver water to WTWA by the WTWA Start-Up Date and WTWA shall be under no obligation to pay any amounts that would be required after the WTWA Start-Up Date if the Raw Water Delivery System cannot be completed by such date due to the failure of the other party to timely (i) design, bid and/or construct its respective Portion of the Plan, (ii) review the design, bids and/or contracts for the other party's Portion of the Plan, (iii) test the Raw Water Delivery System, (iv) make modifications for failure of the Raw Water Delivery System to conform to the Plan or necessitated by adverse impacts to the Water System shown after testing. Additionally, the City shall be under no obligation to deliver water to WTWA by the WTWA Start-Up Date if WTWA fails to reimburse the City for the City's Capital Costs as provided in the contract.

Following construction of the Raw Water Delivery System, each party is solely responsible for the operation and maintenance of its respective Portion of Plan.

#### **Reductions and Curtailments.**

The City's obligation to provide the full Contract Amounts shall be excused, either partially or wholly, only if one or more of the following conditions occur:

- (i) decrease in the amount of Surplus Raw Water available;
- (ii) facility or equipment failure;
- (iii) drought; and

(iv) force majeure.

Upon WTWA's request, the City may in its sole discretion make up the delivery shortfall (or a portion thereof) by delivering additional water. If the City does not deliver additional water, WTWA shall be entitled to a credit for such delivery shortfall at the end of the applicable Fiscal Year.

**Termination by the City.**

The City may terminate the contract if: (i) WTWA does not pay in full within 60 days from the date of a receipt of an invoice, or (ii) WTWA, Suffolk or Isle of Wight has breached any other term of the contract.

**Termination by WTWA.**

WTWA may terminate the contract if: (i) the City does not deliver water in the amounts requested and when requested by WTWA as provided in the contract except as excused under the contract and in the event of a minor variance managed in accordance with the contract, or (ii) the City has breached any other term of the contract.

**Guarantee by Suffolk and Isle of Wight.**

In consideration of the City agreeing to the terms of the contract, Suffolk and Isle of Wight guarantee the payment obligations of WTWA under the contract, to the extent permitted by law and to the extent that any such guarantee is not deemed to be debt pursuant to the Constitution of Virginia. The guarantee is initially apportioned 75% to Suffolk and 25% to Isle of Wight. The apportionment may be adjusted by Suffolk and Isle of Wight upon joint notice to the City of such reapportionment.

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## **APPENDIX F**

### **FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the City of Norfolk, Virginia (the "City"), in connection with the issuance by the City of \$176,925,000 original aggregate principal amount of its Water Revenue Refunding Bonds, Series 2012 (the "2012 Bonds"), as authorized by Ordinance No. 44,570 adopted by the Council of the City on February 28, 2012 (the "Ordinance"), and pursuant to a Master Indenture of Trust dated as of November 1, 1993, as previously supplemented and amended (the "Master Indenture"), between the City and U.S. Bank National Association as successor trustee (the "Trustee"), as further supplemented and amended by a Ninth Supplemental Indenture of Trust dated as of April 1, 2012, between the City and the Trustee (collectively, the "Indenture"). The proceeds of the 2012 Bonds are being used by the City, together with other available funds, to (i) refund certain water revenue bonds of the City, and (ii) pay the financing and issuance costs of the 2012 Bonds. Under the Ordinance, the City approved the offering and sale of the 2012 Bonds to the public pursuant to an Official Statement relating to the 2012 Bonds, dated March 22, 2012 (the "Official Statement"). The City has determined that it constitutes an "obligated person" within the meaning of the Rule (hereinafter defined) with respect to the 2012 Bonds and, accordingly, hereby represents, covenants and agrees as follows:

**Section 1. Purpose of the Disclosure Agreement; Representation.** This Disclosure Agreement is being executed and delivered by the City for the benefit of the Holders (as defined below) and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below). The City acknowledges that it is undertaking primary responsibility for any reports, notices or disclosures that may be required under this Disclosure Agreement.

**Section 2. Definitions.** In addition to the definitions set forth in the Ordinance, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Financial Information" with respect to any Fiscal Year of the City means the following:

- (i) the financial statements (consisting of at least a statement of net assets, a statement of cash flows and a statement of revenues, expenses and changes in fund net assets and thereafter a statement of net assets, a statement of cash flows and a statement of revenues, expenses and changes in fund net assets) of the City's Water Utility Fund, which (A) are prepared annually in accordance with generally accepted accounting principles in effect from time to time consistently applied (provided that nothing in this Disclosure Agreement will prohibit the City after the date of the Official Statement from changing such principles so as to comply with generally accepted accounting principles as then in effect or to comply with a change in applicable Virginia law); and (B) are audited by an independent certified public accountant or firm of such accountants in accordance with generally accepted auditing standards as in effect from time to time; and

(ii) updates of the operating data contained in the following sections and subsections of the Official Statement entitled: (a) "THE SYSTEM" -- "Customer Base" (but only with respect to Table 1, Average Metered Consumption); and (b) "FINANCIAL MANAGEMENT" -- "Water Rates" (but only with respect to Table 10, Retail Customers' Average Annual Costs Norfolk Retail, Table 11, Wholesale Customers' Average Annual Costs Virginia Beach, Table 12, Wholesale Customers' Average Annual Costs U.S. Navy, including Norfolk and Virginia Beach Facilities and Table 13, Wholesale Customers' Average Annual Costs Chesapeake) and "Budget Process" (but only with respect to Table 16, Water Utility Fund Annual Budget for the two most recent Fiscal Years). All of the operating data to be provided pursuant to this subparagraph may be presented in the form of tables.

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

"Fiscal Year" shall mean the twelve-month period, at the end of which the financial position of the City and the results of its operations for such period are determined. Currently, the City's Fiscal Year begins July 1 and continues through June 30 of the next year.

"Holder" shall mean, for purposes of this Disclosure Agreement, any person who is a record owner or beneficial owner of a 2012 Bond.

"Make Public" or "Made Public" has the meaning set forth in Section 4 of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the 2012 Bonds required to comply with the Rule in connection with the offering of such 2012 Bonds.

"Rule" shall mean Rule 15c2-12 under the Securities Exchange Act of 1934 and any similar rules of the SEC relating to disclosure requirements in the offering and sale of municipal securities, all as in effect from time to time.

"SEC" shall mean the U.S. Securities and Exchange Commission.

**Section 3. Obligations of the City.** (a) The City shall complete the preparation of the Annual Financial Information with respect to any Fiscal Year of the City not later than 270 days after the end of such Fiscal Year.

(b) The City shall, in accordance with the Rule, Make Public or cause to be Made Public by the Dissemination Agent (if other than the City), the Annual Financial Information within 30 days after it is prepared in final form.

(c) The City shall Make Public or cause to be Made Public by the Dissemination Agent (if other than the City), in a timely manner not in excess of 10 business

days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the 2012 Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on any credit enhancement maintained with respect to the 2012 Bonds reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 - TEB) or other material notices or determinations with respect to the tax status of the 2012 Bonds, or other material events affecting the tax status of the 2012 Bonds;
- (vii) modifications to rights of Holders, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the 2012 Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of the City;\*
- (xiii) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

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\* The event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan or reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(xiv) appointment of a successor or additional trustee or the change of name of a trustee, if material.

provided that nothing in this subsection (c) shall require the City to maintain any debt service reserve, credit enhancement or credit or liquidity providers with respect to the 2012 Bonds or to pledge any property as security for repayment of the 2012 Bonds.

(d) The City shall notify the MSRB of any change in its Fiscal Year not later than the date on which it first provides any information to the MSRB in the current Fiscal Year.

**Section 4. Information Made Public.** Information shall be deemed to have been "Made Public" for purposes of this Disclosure Agreement if transmitted the MSRB in an electronic format as prescribed by the MSRB. Should the SEC approve any additional or subsequent filing system for satisfying the continuing disclosure filing requirements of the Rule, any filings required under this Disclosure Agreement may be made by transmitting such filing to such system, as described in the applicable SEC regulation or release approving such filing system.

**Section 5. Incorporation by Reference.** Any or all of the Annual Financial Information may be incorporated by specific reference from other documents, including official statements containing information with respect to the City, which are available to the public on the internet website of the MSRB or filed with the SEC. The City shall clearly identify each such other document so incorporated by reference.

**Section 6. CUSIP Numbers.** The City shall reference, or cause the Dissemination Agent (if other than the City) to reference, the CUSIP prefix number for the 2012 Bonds in any notice provided to the MSRB pursuant to Sections 3 and 4.

**Section 7. Termination of Reporting Obligation.** The obligations of the City under this Disclosure Agreement shall terminate upon the earlier to occur of the legal defeasance or final retirement of the 2012 Bonds.

**Section 8. Dissemination Agent.** The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent.

**Section 9. Amendment.** Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement, if such amendment is supported by an opinion of independent counsel with expertise in federal securities laws addressed to the City and to the Participating Underwriter for the 2012 Bonds to the effect that such amendment is permitted or required by the Rule.

**Section 10. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of occurrence of

an event listed in Section 3(c), in addition to that which is required by this Disclosure Agreement. If the City chooses to report any information in any Annual Financial Information or include any information in a notice of occurrence of an event listed in Section 3(c), in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Financial Information or notice of occurrence of such an event.

**Section 11. Default.** Any Holder, whether acting jointly or severally, may take such action as may be permitted by law against the appropriate public official to secure compliance with the obligations of the City under this Disclosure Agreement. In addition, any Holder, whether acting jointly or severally, may take such action as may be permitted by law to challenge the adequacy of any information provided pursuant to this Disclosure Agreement, or to enforce any other obligation of the City hereunder. A default under this Disclosure Agreement shall not be deemed an event of default under the Ordinance, the Indenture, any 2012 Bond or any other debt authorization of the City, and the sole remedy under this Disclosure Agreement in the event of any failure of the City to comply herewith shall be an action to compel performance. Nothing in this provision shall be deemed to restrict the rights or remedies of any Holder pursuant to the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder, or other applicable laws.

**Section 12. Identifying Information.** All documents provided to the MSRB hereunder shall be accompanied by identifying information as prescribed by the MSRB.

**Section 13. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the City, the Participating Underwriters and Holders from time to time of the 2012 Bonds, and shall create no rights in any other person or entity.

**Section 14. Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[SIGNATURE PAGE FOLLOWS]

Date: April 4, 2012

**CITY OF NORFOLK, VIRGINIA**

By: \_\_\_\_\_  
Marcus D. Jones,  
City Manager,  
City of Norfolk, Virginia

By: \_\_\_\_\_  
Shenette C. Felton,  
Acting Director of Finance,  
City of Norfolk, Virginia

AGREED TO AND ACKNOWLEDGED:

**U.S. BANK NATIONAL ASSOCIATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Approved as to Form and Correctness:

\_\_\_\_\_  
Office of the City Attorney  
Norfolk, Virginia

[SIGNATURE PAGE TO CONTINUING DISCLOSURE AGREEMENT]